CANADA

BUDGET SPEECH

DELIVERED BY

HONOURABLE DONALD M. FLEMING

MINISTER OF FINANCE
MEMBER FOR EGLINTON

IN THE

HOUSE OF COMMONS

JUNE 20, 1961

ROGER DUHAMEL, F.R.S.C.
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HOUSE OF COMMONS, TUESDAY, JUNE 20, 1961

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. Donald M. Fleming (Minister of Finance) moved:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

He said: Mr. Speaker, normally 12 months transpire between budgets. Exactly six months ago this evening, I was delivering my last previous budget in this chamber. It was a supplementary to the 1960 budget. Tonight's is the second budget of the present session.

Four years ago tomorrow morning the present government was sworn into office. This is the fifth budget I have had the honour to submit to the house in these four years, not including the financial proposals introduced on December 6, 1957.

The circumstances attending each budget have differed from those associated with the others. Each was aimed to meet the financial and fiscal problems of its time. Tonight's budget is designed to meet Canada's present needs and difficulties. Flexibility has been the keynote of our financial policy in these four years. It will also characterize the approach revealed in tonight's budget.

Monsieur l'Orateur, l'intervalle entre deux budgets est normalement de douze mois. Or, il y a exactement six mois ce soir que j'ai présenté mon dernier budget à la Chambre. C'était un budget supplémentaire à celui de 1960. Le budget de ce soir est le deuxième de la présente session.

Il y aura quatre ans demain que le gouvernement actuel a été assermenté. C'est le cinquième budget que j'ai l'honneur de présenter à la Chambre depuis cette date, sans compter les propositions financières présentées le 6 décembre 1957.

Chaque exposé budgétaire a été entouré de circonstances différentes de celles qui entouraient les autres. Chaque budget a eu pour objet de résoudre les problèmes financiers et fiscaux de l'heure—Le budget de ce soir est conçu pour répondre aux besoins et aux difficultés actuels du Canada.

Notre politique financière, depuis quatre ans, s'est distinguée par sa souplesse. Le budget de ce soir ne fera pas exception à la règle.

GOVERNMENT ACCOUNTS 1960-61

In structure my budget speech this evening will depart somewhat from past precedents. I shall begin by placing on the record a brief summary of the government's accounts for the year that ended last March 31. I shall not embark upon any detailed analysis because all the essential facts and figures have been included in the white paper which was tabled and published last Friday.

In my March, 1960 budget statement I recorded my expectation that our revenues for the 1960-61 fiscal year would be $5,892 million, our expenditures $5,880 million, and that the resulting surplus would be $12 million. Last December, in presenting to the house a supplementary budget, I explained that the rate of economic expansion in Europe had shown some hesitation and that the economic outlook in the United States and Canada, which had been most encouraging at the beginning of 1960, had rather unexpectedly reversed itself, resulting in a disappointing slow down during the last three quarters of

1960. This inevitably affected our budgetary position and my revised estimates, after making provision for certain tax changes, were that revenues would be $5,694 million, expenditures $5,980 million and the deficit $286 million.

Our books of accounts for 1960-61 have not yet been closed, but subject to some minor adjustments our revenues for the past year were $5,616 million, our expenditures $5,961 million and our deficit $345 million. In other words our revenues were $78 million and our expenditures $19 million below my December forecast, and the deficit was therefore $59 million greater. As explained in the white paper, the main factor causing the rather large drop in revenues was the timing of the long Easter week end. This year Good Friday fell on March 31 and a considerable proportion of the tax payments due at the month end were in fact not put in the mail until April 3 or 4 and therefore could not be credited to our 1960-61 fiscal year revenues. Our March tax receipts showed an unexpected short-fall of nearly $40 million.

The government's over-all cash position for 1960-61, that is, including non-budgetary as well as budgetary cash receipts and disbursements, resulted in a total cash deficit of $294 million, since our non-budgetary cash receipts exceeded disbursements by $51 million. Thus our budget deficit of $345 million was financed by a net non-budgetary cash surplus of $51 million, a net increase of $223 million in our outstanding unmatured debt, and a reduction of $71 million in our cash balances.

ECONOMIC REVIEW

The white paper also contains a full account of the economic events of 1960. It includes an analysis of the more significant longer term developments in Canada and in the world as a whole as related to the Canadian situation. I commend this analysis to the careful study of hon. members. Tonight I shall not cover the ground in the same detail as in the white paper, but I should like to refer briefly to some of the principal features.

Last year we experienced a number of adjustments in our economy including some related to normal cyclical movements, and others of a temporary, special nature. These took place at a time when other longer term influences were also compelling the Canadian economy to adapt itself to a new world environment. In these circumstances the year 1960 might have been one of serious economic maladjustment and recession. In the event, however, we achieved increases and reached new records in production, incomes, employment and trade, both domestic and foreign.

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At the same time price levels were more stable than they have been in the last five years.

By now, in mid-1961, we are coming to the end of those adjustments related to special and cyclical factors which, in 1960, were exercising a restraining influence on expansion. Those areas of the Canadian economy where declines took place last year are today showing signs of improvement. Capital investment, which declined in 1960, is expected to rise this year. Activity in housing, which fell off in the early part of 1960, responded well to government measures and other market forces in the latter half of the year and has been moving ahead this year. We may expect not only the housing industry, but other associated activities as well, to benefit from this improvement. The level of economic activity showed little change in the first quarter of this year, but increasing evidence of expansion is now appearing. Latest figures show that total employment has risen materially and the numbers of unemployed have begun to decline even after allowing for the normal seasonal movement. Other sectors where there was continued growth last year are showing further strength this year. In the United States informed observers consider that the recovery is now well under way. Expansion is expected to continue in western Europe and in our other important overseas markets. These welcome developments will make possible further increases in our exports, production, employment and incomes. Thus, an improvement in our situation could be expected to occur even if no further efforts were taken to stimulate our economy.

But this improvement, which could be expected in the ordinary course of events and without further stimulus, would, I believe, be modest, an increase of about 3 per cent in the G.N.P. It would be unlikely to induce the full utilization of our productive resources or to provide substantial improvement in the standard of living of our growing population. It would be unlikely to reduce the scale of unemployment to a more tolerable level.

What are the reasons for this apparent lack of resilience in our economy? Have there been new and abrupt changes in our environment which would explain our situation, or has there been a slow emergence of underlying forces which had their birth in an earlier period? Can we trace these influences to some indigenous development, or must we look beyond our own borders? The answers to each of these questions must, I believe, be a qualified affirmative.

The important longer term developments which are at the root of our present day economic difficulties have been taking place slowly since the end of world war II and to

some extent were hidden during the extended period of post-war shortages of goods and capital equipment, a period when inflationary forces were constantly in the ascendant. During this period of shortages and rising prices the economies of western Europe and Japan have been rebuilt with the newest plant and equipment and with a highly skilled labour force, and the underdeveloped countries of the world have tried strenuously to achieve self-sustaining economic growth.

Within the past two or three years direct controls on the movement of goods and capital in the free world have, to a large extent, been dismantled. The pace of scientific and technological development has been rapidly accelerated. The western world has grown more interdependent and the policies of governments and business groups have become more closely linked. In the face of all these changes, the competition in world markets has become much more intense and the need for greater efficiency has been forcefully underlined.

These changes have affected all western countries. But Canada has faced additional special problems. Our largest and most important foreign market, the United States, has experienced an inadequate rate of growth in recent years. This has affected not only our exports but also our general business psychology. Meanwhile, the growth of our own labour force has been unusually rapid and much higher than in other western countries. Our growth in employment has been higher—and I wish to stress this—our growth of employment has actually been higher than in other countries, including the United States; nevertheless we have been unable to absorb into employment all the entrants into our labour force. At the same time, many of those seeking employment have not had the benefit of adequate training to meet the needs of our increasingly specialized and technical industries.

Another special feature of the Canadian situation is that many of our industries have surplus capacity. To some degree this reflects the inadequate rate of growth in the United States market to which I have already referred. In part it also reflects the "lumpy" nature of much of our investment, which for physical and economic reasons must be installed in large units, sufficient to meet prospective as well as current needs. A great deal of the investment in the resource industries was of this type. But surplus capacity in our economy also reflects to some extent the unsustainably high levels of investment which were encouraged by the inflationary atmosphere of the mid-1950's. During this period of excessive pressure on our resources it was inevitable that some speculative investment was undertaken, not only in Canada but all over the world, with expectations of continued rising prices. These expectations proved wrong.

The normal growth of real demand can be expected to overtake capacity in the not too distant future. Meanwhile, the existence of surplus capacity acts as a drag on private investment. It necessitates some transfer of resources out of temporarily overexpanded industries; unfortunately, it also contributes to attitudes and conditions which make such transfers more difficult.

In some quarters the conclusion has been drawn that the disappointing levels of production, unemployment, and our balance of payments deficits, are the reflections of major structural maladjustments and inefficiency pervading our whole economy. We are told that Canada has relied too heavily on the development of her natural resources and that she is lagging in the field of industrial development. It is suggested that efforts be made to force our economy into different channels less dependent on world demand. We are urged to balance our external accounts not by expanding exports but by erecting barriers against imports.

The analysis which supports these proposals is in my judgment basically wrong; consequently the conclusions are also erroneous. Canadian economic development since the second world war has on the whole been sound. Investment has flowed into sectors where an abundance of natural resources gave us a decided natural advantage. It also has flowed into a great variety of manufacturing industries, especially into those related to the fast growing resource industries. It is sometimes suggested that the resource industries have been stimulated in Canada to such an extent that they have expanded at the expense of manufacturing. In this connection, the house should remember that employment in manufacturing industries in Canada, while less than we would like, has been better sustained than in the United States over the past seven years.

This is not to say that we would be complacent about the present state of our economy. Far from it. There is more unemployment and unused capacity in our industries than we can possibly accept. Recent rates of economic growth have been lower than we need to absorb our rapidly growing labour force and the output of our expanding industrial capacity. Some of our industries have been stagnant in the face of strong world competition. Our technological development, the entreprise of our business community, and the skills and training of our people, great as they are, have not kept pace with the needs of a rapidly changing world. The deficit in our

balance of payments, while declining, is still too high for our present economic circumstances. These are hard facts which must be faced squarely. This we propose to do.

We do not intend to let events take an unguided course in the hope that these problems will solve themselves. The government has introduced numerous measures during the past four years designed to overcome these and other difficulties. As a consequence our economic situation is very much better than it would otherwise have been. We will pursue this course with energy and determination until these difficulties are fully overcome.

Our objective will be, first and foremost, to provide fuller opportunities for the useful and profitable employment of all Canadians willing and able to work. We shall strive to attain a more rapid rate of stable and balanced growth for all sectors of our economy and all regions of our country. We shall seek to improve the technological efficiency of our industry, to heighten skills and capacities of our workers, and to stimulate the talents and initiative of our entrepreneurs. We shall endeavour to raise the levels of savings and investment by Canadians and reduce the balance of payments deficit. These, sir, are the purposes of this budget.

Par dessus tout, nous aurons comme objectif d'ouvrir de plus grandes possibilités d'emploi utile et profitable à tous les Canadiens qui veulent travailler. Nous allons nous efforcer de donner un rythme plus rapide de croissance équilibrée à tous les secteurs de notre économie et à toutes les régions de notre pays. Nous allons nous efforcer d'accroître l'efficacité technologique de nos industries, d'augmenter l'habileté et la compétence de nous ouvriers et de stimuler les talents et l'initiative de nos entrepreneurs. Nous allons tâcher de hausser le niveau de l'épargne et des placements des Canadiens et de réduire la balance déficitaire des paiements. Ce sont là les objectifs du présent budget.

Nous allons, en recourant à des politiques fiscales, financières et commerciales bien dosées tâcher de créer plus d'emplois, de stimuler la production et d'améliorer l'état général de notre économie.

I need not remind hon. members that there is no royal road, no magic which a minister of finance may invoke to achieve these goals. If there were easy solutions they would have been adopted long ago. Nor can these objectives be attained by federal government measures alone. In our free enterprise system we shall need self-discipline and the full co-operation of business, labour

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and all levels of government—indeed of all our people—if we are to succeed. I shall have more to say about this subject later.

The budget which I bring down this evening is not an ordinary budget. In more than usual measure it is an economic budget. We shall endeavour, through an appropriate mixture of fiscal, financial and commercial policies to create more jobs, to stimulate production, and to improve the general state of our economy. I should like now to discuss the policies and measures which I propose that this house should endorse.

FISCAL POLICY

While budget policy can play an important role in attaining the objectives that I have set out, it cannot accomplish the whole task. What we need, and what I shall be putting before the house this evening, is a balanced combination of both broad and specific economic and fiscal proposals. The government has already initiated during this session a number of constructive programs to encourage economic expansion; small business loans, housing development, urban renewal and rural development, greatly increased aids to technical education and training, measures to promote the expansion of exports, and in other ways. These are all parts of an integrated economic policy.

When there is a substantial degree of slackness in the economy, in the form of excess productive capacity and idle manpower, budget deficits can provide an important stimulus. By means of such a deficit the government, through its expenditures, places in the hands of the public substantially more purchasing power than it withdraws through taxation. If appropriately planned and timed, a substantial deficit can encourage higher levels of output, employment income and savings, without incurring risks of inflation. When employment and incomes have reached satisfactorily high levels and the rate of economic growth is strong, a sound budget and tax structure should generate sufficient revenues not only to cover current expenditures but also to provide funds for the orderly retirement of debt.

The present general pattern of our tax structure is, in my judgment, sound. While particular rates and particular applications of tax legislation need to be adjusted from time to time, our present tax structure is such that, provided we do not embark upon large new types of spending, it will provide a balanced budget and some provision for debt repayments as soon as we re-enter the area of high employment and a renewed period of progressive growth.

There is, however, as hon. members know, a time lag of quite a few months between increases in the rate of growth of output and employment and the increased inflow of tax revenues. While I expect to see a significant and accelerating improvement in output, employment and incomes during the balance of this fiscal year, I cannot anticipate an equivalent increase in tax revenues in the same period. Much of the revenue benefits of economic expansion will not reach the treasury until after the end of this fiscal year.

In the circumstances confronting Canada today, it is appropriate, indeed desirable, that the federal government should, by incurring a sizeable deficit, help to stimulate the economy. This we propose to do. Accordingly, I shall not be introducing any increase in our general level of taxation. Indeed, I shall be proposing some significant tax reductions to accomplish certain specific economic objectives. This contribution in the field of fiscal policy taken together with the financial and other policy measures which have already been introduced or which I shall be announcing tonight, will bring about higher levels of production and employment, and a more satisfactory rate of growth.

CAPITAL, SAVINGS, THE BALANCE OF PAYMENTS AND THE EXCHANGE RATE

In addition to this fiscal contribution the government will be implementing other broad financial measures that will encourage general economic growth, as well as specific measures designed to encourage particular sectors or industries. These general measures are in the interrelated fields of capital flows, the deficit on international account, and the external value of the Canadian dollar.

Over the past five years we have experienced net inflows of foreign capital ranging from \$1.1 billion up to \$1.5 billion annually. These capital inflows have been matched by deficits on current international account, that is to say, by an excess of imports of goods and services over exports. When the economy was fully employed and expanding rapidly, and when inflationary pressures were active, such capital inflows, and the matching import surpluses of goods and services, were appropriate and beneficial. Under today's conditions they are not only unnecessary, but in some forms they can be harmful. Our excess imports of goods and services must be substantially reduced; our exports must be expanded. There are large quantities of goods and services that we are buying abroad that we can and should be producing at home at economic prices.

It was for these reasons that in my budget of March, 1960 I issued a serious warning to those Canadians, including provincial and municipal governments and business, who, it seemed to me, were over-ready to raise funds abroad, apparently regardless of the exchange risks they were running. In the December budget, as the house will recall, I took action in the field of taxation to remove certain special incentives to borrow abroad which had been built into our tax system in earlier years when there was an obvious need for foreign funds.

The public reactions to these warnings and measures have clearly been in the right direction. The capital inflow has been reduced, the exchange rate on our dollar has been reduced, the surplus imports of goods and services has been reduced; but they have not been reduced enough. Further measures must now be taken.

Accordingly, the government has reached certain policy conclusions relating to the flows of capital and terms of lending within Canada, the import of capital from abroad, the level of the Canadian dollar, and the deficit in our current international transactions. These conclusions may be set out as follows:

(a) The current deficit in our balance of payments is in large measure inappropriate; with so much unused capacity in Canada, we should be exporting substantially more goods and services and importing much less.

(b) An expansion in exports and a reduction in imports should not be brought about by export subsidies, or by higher tariff rates, or quotas, or other forms of government intervention or protection, but rather by encouraging our exchange rate to fall into a more appropriate relationship with our economic situation.

(c) The appropriate method for relieving the exchange rate of undue and unwanted upward pressures is to take every practicable step to ensure that Canadians who might otherwise be raising funds abroad are, in future, satisfied from Canadian financial sources.

(d) Since it will take time to divert demands for funds from foreign sources to Canadian sources, and since it is urgent to obtain relief from the resulting excess of imports of goods and services, the government has decided to use the exchange fund to neutralize, at least in some degree, the effects of the continuing capital inflows.

The house will no doubt wish me to elaborate on these far-reaching decisions.

First, and of most immediate interest, is the decision relating to the adverse balance on goods and services account which has been running well in excess of \$1 billion annually. It is the government's aim to reduce this deficit substantially in the near future and

ultimately to achieve a position much closer to balance. The improvement should be brought about partly by increased exports and partly by diminished imports. Our purpose is to put Canadian producers in a position where, as a result of these policies, they will soon be selling, at home and abroad, many hundreds of millions of dollars worth of additional Canadian goods and services. This will yield substantial benefits, direct and indirect, in the form of more jobs, more production and more business opportunities for our industries.

These results will be achieved by encouraging our exchange rate to find a level in keeping with our economic circumstances. They are not to be achieved by subsidies, by government controls or restrictions. It has been urged on me from some quarters that there is a need for direct government intervention to deal with our economic problems. I reject this argument. The policy which I am placing before the house tonight is, in terms of real economic incentives, more significant, more powerful, and more pervasive than anything that could be implemented in the way of subsidies and controls. Moreover, it is free from the arbitrary decisions and the bureaucratic delays that always attend incursions by the government into the affairs of private industry.

The high level of our exchange rate has been impairing the competitive position of Canadian suppliers of goods and services in the home market and in foreign markets alike. An appropriate downward adjustment in the value of our dollar will bring them immediate relief and encouragement. On the export side one thinks of wheat and livestock, of petroleum, metals and minerals, of pulp and paper and lumber, and of the growing range of manufactures for which, since currency convertibility was restored, we are finding increasing markets abroad. On the import side our thoughts run first to industries whose growth rates have been less than satisfactory because of the imports that have, in effect, been carried into Canada as a result of a tide of unduly large capital inflows and a consequently unduly high value for our currency; household appliances, motor cars, a variety of consumer goods, and many types of industrial machinery. The exchange rate also affects service industries such as the tourist industry where we have been incurring heavy deficits because Canadians, at the current exchange rate, spend far more abroad than foreign visitors spend in Canada.

In all these situations a further reduction in the exchange rate will exercise a positive influence. And, as I have said, it is the government's intention so to redress our balance

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of payments that many more Canadians will be employed producing substantially more goods and services for the domestic market and to serve our markets abroad.

While decisions regarding the balance of payments and the exchange rate are of importance, there is a further decision which is, in a sense, basic to the others. This decision is a positive one; to encourage the supply of capital from Canadian sources, that is from Canadian savings, to meet Canadian requirements for expansion and modernization. The rate of Canadian savings has not been low. In fact it has been reasonably good. But it could be better. The flow of savings varies in response to other changes in the economic and financial system. And by far the most important influence on the flow of savings is the flow of incomes. Normally the more people earn, the more they save. By increasing the level of employment and the flow of incomes and profits, we shall automatically increase the flow of Canadian savings. The measures which I am proposing tonight will help to achieve these goals.

The objective that Canadian capital requirements be met as far as possible from within Canada, rather than from abroad, is based on economic grounds and with particular concern for our international deficit and the level of the exchange rate. At the same time the government welcomes, as the Canadian people will welcome, the fact that, over a period of time, this decision will result in greater Canadian ownership and control over Canadian industry and Canadian assets. For this purpose, Canadian savings must not only be increased, they must be mobilized and put to work in the most productive directions.

I wish to make it quite clear that we do not intend to penalize or discourage foreign capital that seeks constructive employment in this country. I am not proposing, in respect of capital inflows, any substantive further taxation measures. The interim budget of last December removed the unnecessary tax incentives. Nor am I proposing any restrictions on the movement of capital which have been advocated in certain quarters. Canada, even in present circumstances, derives great benefit from certain kinds of capital from abroad. This government remains firmly committed against direct controls on capital.

CAPITAL INFLOW AND INTEREST RATES

Since our aim is to reduce substantially and fairly quickly our excess of imports, visible and invisible, over our exports, it follows that we must aim at replacing, from Canadian sources, an equivalent amount of funds that would otherwise have been raised abroad. We have been giving most careful thought to

ways and means of supplying these funds from Canadian sources. This is a field in which there are no quick or easy answers. The degree of success we can achieve will depend in part on the co-operation of our financial institutions.

Capital is not a homogeneous commodity; each borrower has his own peculiar needs and each lender his own preferences. However, despite the infinite variety of capital transactions, we can see our way toward certain broad measures that must be taken.

To begin with, interest rates in Canada are out of line with those in the United States and some of the European capital-exporting countries. We should like to see these spreads narrowed. When Canada was in need of large and increasing supplies of capital from abroad, and when we could welcome the net inflow of goods and services that these capital imports generated, it was natural that our interest rates should be appreciably higher than those in the main capital markets from which we were attracting funds.

But today the situation is very different. We have no reason, in present circumstances, to be offering high interest rates in order to attract capital from abroad. On the contrary, the capital that is thus attracted simply pushes up our exchange rate and pushes up our trade deficit.

High interest rates are a double drag, at times like these, on our economic activity and expansion. Such rates traditionally are recognized as having some effect in restricting or postponing decisions to borrow and expand industrial operations and also the activities of governments and public bodies. And, much more important, with our floating rate of exchange, relatively high interest rates actually cause us to develop an import surplus of goods and services with adverse effects on employment.

Statistics indicating trends of interest rates in recent years in Canada and abroad are to be found in the white paper. These support the view that Canadian interest rates have grown out of harmony with those abroad and with our changing economic circumstances. An important step in the right direction was taken earlier this month; I refer to the reduction by the chartered banks of their prime rate on commercial loans. Further moves of this sort will be welcomed and encouraged by the government.

I am confident that the spreads between interest rates of various types in Canada and abroad can be reduced and brought into proper relationships, but I would not wish hon. members to expect that this can be accomplished by some simple or quick formula. It would be folly, for example, to attempt drastically and artificially to force interest rates down by irresponsible increases in the money supply. Such a device would be not only unsound but before long would prove to be self-defeating. We attach high importance to a climate of confidence and understanding in our financial markets. What is required is a judicious and well coordinated combination of fiscal, monetary and general economic measures, the elements of which vary in accordance with the needs of the times.

While the level and structure of Canadian interest rates is an important influence on our balance of payments and our exchange rate, it is clear that much of the capital that comes in from abroad is not directly responsive to interest rates. For instance, last year more than $600 million of capital flowed in under the broad heading of "direct investment". Part of this inflow can contribute immediately and directly to the Canadian economy; not only does it create new jobs and new industrial opportunities in this country but it often carries with it new industrial technology and assured access to markets abroad. On the other hand, another part of this very large total constitutes the least desirable type of inflow; it involves the purchase by people abroad of established Canadian businesses. Many of these takeovers of Canadian firms do little or nothing for our economy and, at the time of purchase, they involve an upward pressure on the Canadian exchange rate and a consequent drag on Canadian production and employment. I shall have more to say on this subject later in connection with an important expansion in the activities and the role of the industrial development bank.

Some of the capital inflow originates in Canada with borrowers who seek funds abroad, not only in response to lower interest costs but for purely institutional reasons. Access to the New York capital market is almost a matter of habit; it is often simpler to raise money there than to search out equivalent possibilities in Canada. Certain aspects of our capital markets have not been adequately developed in Canada. This does not reflect in any way upon the sound and progressive financial institutions in our country, which have been rendering an excellent service under present arrangements. But it does suggest that we must improve our institutional framework.

I have already held fruitful discussions with certain Canadian financial institutions looking toward a decline in interest rates and a reduction of the inflow of types of capital

that can be met from Canadian sources. I intend to have further discussions along these lines in the near future.

DEBT MANAGEMENT

While the government will be calling for the co-operation of Canadian financial institutions in achieving our objectives regarding the supply and application of Canadian savings, we shall at the same time be taking certain positive steps ourselves. In this connection I have three important announcements to make relating to debt management.

I need not remind the house that the federal government and its agencies are by far the largest factor in the financial markets of this country. Their influence is particularly great in times such as these, when the private sector reduces its demand for capital and the federal government incurs substantial deficits as a measure to stimulate production and employment. The proper management of its financial affairs is therefore one of the most constructive contributions the federal government can make to the smooth functioning of Canadian capital markets.

Accordingly I wish to announce that in order to avoid congestion in the "long end" of the capital market, which is the part of the financial market upon which the provinces, municipalities and private business depend for much of their capital needs, I intend to confine new federal market issues for at least the next several months to the "short end" of the market.

The sale of new issues is not the only channel by which the impact of government financing is transmitted to the market. There are sizeable holdings of outstanding securities in government accounts; sales and purchases by these accounts have the same market effect as the issue of new securities or the redemption of old. One of the most important of these accounts, both in terms of size and in terms of volume of purchases and sales, is the unemployment insurance fund. The holdings of this fund have come to be regarded in some quarters as a threat to stability in the long end of the market. The government has therefore decided to remove any such threat.

The entire portfolio of the unemployment insurance fund will in due course be taken over by the treasury at book values, and in exchange the fund will acquire interest bearing but non-marketable bonds which may be redeemed by the government as required on 30 days' notice. The direct government of Canada bonds presently held by the fund will then be cancelled, and the government guaranteed bonds will in due course be traded

to the Bank of Canada in exchange for equivalent government bonds which will thereupon be cancelled. This will remove the overhang of about $245 million mid and long term bonds which, as I have said, has had a psychologically disturbing effect on the market.

The third announcement I wish to make in the field of debt management concerns the establishment of a purchase fund for the orderly retirement of government debt. As hon. members know, there is at present a fund known as the securities investment account, which is used from time to time to purchase government of Canada securities, particularly those close to maturity. This fund has served a useful purpose in our management of the public debt. We have not, however, had at our disposal the regular flow of funds which is necessary for any steady retirement of debt. The experience of other governments and of private corporations suggests that the existence of such a fund through which purchases of securities are made can have a steadying effect on the market. Over a period of time it should contribute to a reduction of interest costs.

It has therefore been decided to establish a purchase fund to assist in the management of the public debt. Its initial size will be $100 million, to be used over the next twelve months for the purchase in the market of government of Canada mid and long term securities. Details, concerning the operation of the fund will be announced later.

The combination of the policies I have just outlined combined with others to be described later this evening and the indications I gave earlier concerning budget balance will have, I am confident, a salutary effect on the financial markets of this country. They represent a determined effort on our part to exert strong pressure on the level of interest rates and the exchange rate, in order to bring them more in line with our own requirements and with conditions prevailing in the world about us. The improvement in our capital markets which will flow from these measures will be of direct benefit to the provinces, municipalities, business and other borrowers.

THE INDUSTRIAL DEVELOPMENT BANK

The next link in the financial chain that the government is forging relates to the industrial development bank. The scale of the bank's lending to small and medium sized businesses has been expanding rapidly. In its last fiscal year the bank made 740 loans amounting to $38 million, as compared with 221 totalling $17 million five years earlier. In its current fiscal year which began

last October loan approvals have been more than 60 per cent greater than the record rate achieved in the same period a year ago.

The number of branch offices has been increased from four to 13 over the past five years, and further branches will be opened in the near future as suitable staff can be recruited and trained. This expansion has been very desirable and has had the full support of the government.

The predominant business of the bank has been, and will continue to be, the making of term loans to small and medium sized enterprises. However, the bank also has authority to purchase a portion of the equity in an enterprise with a view to resale to the owner or to others at a later date, and to enter into underwriting agreements. These powers will be put to increasingly active use.

In order to encourage continuing growth of the bank's operations, the government has decided to provide it with additional financing capacity, and wider responsibilities. For these purposes I shall be placing a bill before the house in the very near future. Without going into detail at this time, I may say that the bill will make provision for important changes. The types of businesses which the bank may assist will be enlarged. At present it is permitted to provide accommodation to certain specified classes of industry. These include manufacturing and processing, logging and construction, air transport and some service activities. In the future it is intended that all business enterprises in Canada shall be eligible. The bank would, of course, not expect to make loans where funds are available on reasonable terms from other sources and, in particular, where special provision has already been made by parliament, as in the Small Businesses Loans Act and the Farm Improvement Loans Act. It is intended that the financial resources available to the bank should be substantially increased. These resources are now $160 million; it is intended that they should be increased to about $400 million.

In facilitating the growth of the industrial development bank, the government has in mind several important objectives. The expanded operations of the bank will provide for greater employment. They will also assist in the development of a stronger, more productive and more flexible economy in the future. The bank was formed in order to meet a special need in the Canadian financial structure. This gap exists because, while smaller and medium sized businesses have usually had access to short term credit from the chartered banks, and to long term mortgage credit from other institutions, their operations have not been of a size to enable them to sell securities in the market. To fill this gap the bank has supplied term loans for plant and equipment and also provides technical engineering, accounting and managerial advice where needed. Financial and other assistance of this kind will now be available for many businesses not previously included under the bank's operations.

While the primary purpose of the I.D.B. is to help in financing the establishment of new and the expansion of existing small and medium sized businesses, it has become increasingly apparent that it can also play a useful part in assisting with the problems arising from financial consolidation and changes in ownership.

In these days there are often pressures on the smaller firms from both domestic and foreign sources. If our economy is to grow and prosper we must help them to withstand these pressures. I have in mind, for example, the problems that face Canadian family firms. Often such a firm plays a central role in one of our smaller Canadian towns. In the life of such a firm, occasions sometimes arise when infusion of new management together with new capital becomes desirable. In the past this infusion has not infrequently come from abroad; and while foreign capital may be both desirable and helpful, I am sure that we would all be happier if such a firm had the opportunity to obtain the necessary capital and management in Canada. The I.D.B. has already assisted in situations of this sort, and it is the government's desire that activity in this field be expanded.

Similarly, problems sometimes arise where the owner of a firm is facing or anticipating difficulties in connection with estate taxes. In such a situation the owner may feel driven to dispose of a firm, or a controlling interest in it, and often the most ready purchaser may be located outside of Canada. On such occasions the I.D.B. may have a constructive role to play. The I.D.B. has the power, as I have explained, not only to make term loans but also to purchase shares with a view to resale and to enter into underwriting agreements.

The existence of these powers, and of the willingness of the bank to use them, should be made more widely known. It must, of course, always operate with good business judgment. But within this framework I am confident that the indutrial development bank will make an increasing contribution to solving problems of the types I have described, to increasing Canadian productivity and improving our competitive position, and to helping retain in Canada the ownership and control of Canadian businesses.

OTHER FINANCIAL MEASURES: A ROYAL COMMISSION

I should like at this point to comment on other important steps in the financial field which the government has announced in the recent past or will take in the near future.

I should like to remind the house of certain recent measures in the financial field that are designedly in harmony with the objectives I have announced tonight and, in particular, the objectives of lowering interest rates and ensuring that, as far as practicable, Canadian demands for capital should be met from Canadian sources.

First, I am glad to say that after a naturally slow beginning, the Small Businesses Loans Act is being put to increasingly good use. The latest figures show that guaranteed bank loans under this legislation are now being made at an annual rate of approximately $100 million to a wide variety of Canadian business enterprises.

Second, I should like to refer briefly to the arrangements which we are making for a secondary market in mortgages. As my colleague the Minister of Public Works has explained, there is no intention of dumping on the market large quantities of mortgages now held by the Central Mortgage and Housing Corporation. If and when the government is in need of funds there are more effective and cheaper means of meeting our requirements. On the contrary, it is our intention to feed out to the market fairly limited quantities, in a manner designed to encourage an active market in insured mortgages. Such a market will give an element of liquidity to these instruments, and as such will harmonize with our general program of broadening and deepening Canadian capital markets and of bringing interest rates in Canada more in line with those abroad.

I now turn to the future. It has become almost trite to say that the economic environment of the sixties will be different from that of the fifties. In no field, as far as Canada is concerned, is this statement more true than in the field of financial relationships, domestic and international. In tonight's budget, as on other occasions, the government has reached decisions on certain reforms and certain improvements that should be introduced. We have, however, become aware of the need for a broader, fuller survey than is possible under the pressures of day to day government decisions.

Major Canadian financial institutions have developed over the years an enviable reputation for soundness, prudence and adaptability. Canada has been well served by them. In recent years there have been important changes in the institutions themselves and in

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the markets in which they function. Even greater changes may be in store as the Canadian economy matures and becomes more complex. So important are these institutions and markets to the smooth functioning of business and government that a careful review of them is necessary from time to time.

The last major study was made by the MacMillan commission in 1933. The Canada of that day was a much less mature country than the Canada of today, and the world in which she found herself was vastly different. Having in mind the length of time which has elapsed since this last review of our financial framework, and having in mind also the fact that the Bank Act must undergo its regular decennial review in 1964, the government has decided to appoint a royal commission to examine Canada's financial structure and institutions. The terms of reference and membership of the commission will be announced in due course.

Meanwhile, I say that the terms of reference will be broad, covering all aspects of money, banking, credit and finance. The financing of the Canadian economy will be one of the major areas of study. Such broad topics as the pattern and behaviour of interest rates, consumer credit and instalment financing, and the management of the public debt, will be included in the terms of reference. The commission will be asked to study existing financial institutions, such as the chartered banks, the Bank of Canada, and other institutions that perform banking and credit functions, and the various acts of parliament which govern their activities. The commission will also be asked to consider ways and means of encouraging the development of savings institutions. It would be our intention that the report of the commission should be available well in advance of the decennial review of the Bank Act.

EXCHANGE OPERATIONS

I now return to the exchange rate. As I have said it is the government's intention that our import surplus of goods and services, which has been running in recent years well over a billion dollars annually, should be reduced substantially, and that this should be brought about through an appropriate adjustment of the exchange rate rather than by direct government controls or subsidies, quotas or tariffs.

No one can say today what the appropriate level of our exchange rate would be when our balance of payments is in a position better suited to our present economic circumstances. But the rate will certainly be lower than it has been of late, and it may well be appropriate

for it to move to a significant discount. It will be government policy to facilitate such a movement.

Accordingly the exchange fund will be prepared, as and when necessary, to add substantial amounts to its holdings of United States dollars through purchases in the exchange market. This would have the effect of increasing the foreign exchange reserves available to Canada to be used in case of need. As many competent observers have pointed out, these reserves have not grown over the past decade in line with Canada's international transactions. Once an exchange rate more closely in line with Canada's economic position is achieved, the government will use the resources of the exchange fund to ensure that the rate is kept within a range appropriate to Canada's changing economic situation. The value of our currency must, of course, ultimately depend upon our pursuit of appropriate economic policies.

It has been suggested in certain quarters in this country that any reduction in our exchange rate is inflationary. I do not think that we are in any serious danger of inflation under present circumstances, with so much unused capacity in our economy. A decline in the exchange rate will mean modest price advances for some of the goods we obtain from abroad as well as some of our export commodities. I am confident, however, that if under present conditions of unused economic capacity there is any effect on consumer prices and the cost of living, these will be minimal.

At this point I should like to issue a word of warning. A downward adjustment in the value of our dollar will open up new opportunities for Canadian industry both in our home market and abroad. The fiscal and financial measures which I have proposed or shall be proposing later in this speech should place Canadian industry in a better position to take advantage of these opportunities. But it would be a sad mistake if Canadians should thereby assume that nothing else needs to be done. Goods and services do not sell themselves. The world has become highly competitive for every type of goods and services which we produce. We must be prepared to intensify our efforts to compete in this new situation. We must work hard; all of us, not only the worker, but the entrepreneur and the business manager as well.

It is well known that adjustments in the exchange rate do not yield advantages that last forever. Recent history is full of examples where such adjustments have proven to be an asset which has been dissipated before the fruits have been harvested. If industry should seek to obtain unwarranted price increases, or labour should seek wage adjustments not justified by improvements in productivity, the opportunity will certainly be lost. It would surely be the height of folly if these new opportunities were to be lost because of lack of self-discipline or failure to achieve effective co-operation between management and labour were to result in higher costs and prices and a deterioration in our competitive position. I have in mind that our competitors abroad, particularly in western Europe, have succeeded in achieving a degree of labour-management co-operation which we in North America have yet to attain. We will need a much fuller measure of such co-operation and self-discipline in respect of profits, prices and wages if we are to take full advantage of the new opportunities which will become available.

International financial policy has been the subject of recent consideration both in the international monetary fund and also in the new balance of payments subcommittee of the organization for economic co-operation and development. I believe I can say that, in both bodies, there is a good degree of understanding of the Canadian situation.

These two groups have been paying close attention to the problems associated with massive short term international capital movements; as the house will recall, both the President of the United States and the Prime Minister of the United Kingdom have recently called public attention to the problems that are involved. Over the years Canada's difficulties in deciding upon and pursuing an effective exchange rate policy have been entirely bound up with the problems of capital movements. If we can achieve a better international understanding of these problems, and devise new international techniques for dealing with them, we shall all benefit.

In summary, therefore, our objective is to achieve an exchange rate for the Canadian dollar which will contribute to a better balance in our current account position and to substantially higher rates of domestic production and employment. We will strive to attain this goal through a combination of financial and general economic policies which will encourage Canadians to meet their capital requirements more fully from domestic sources.

Experience over the past few years suggests that there is sufficient resiliency in Canadian industry, whether producing for export markets or for the domestic market, to bring about the necessary adjustments in our foreign trade balance. This judgment is, I think, supported by the fact that although we are running a very heavy deficit in invisible transactions, we have been able, with variations from

year to year, to move from a peak commodity deficit of $728 million in 1956 to less than $150 million in 1960. For the coming year we can foresee a possible surplus on external commodity account which, we believe, should be substantially enlarged through the policies we are pursuing.

We have the material means—the manpower, the resources and the industrial capacity—to obtain these results within a reasonable period of time. But the responsibility for attaining them does not rest with government alone. Indeed, they can only be reached if there is a maximum effort on the part of every segment of the Canadian community, from business and labour. We will have to produce the right goods at the right prices in competition with energetic and competent suppliers from every continent. I urge Canadian producers, encouraged and assisted by the policy measures which I am proposing in this budget, to respond fully to this compelling challenge. In this way we will attain expanded levels of efficient production and create new opportunities for the profitable employment of our growing labour force.

INTERNATIONAL TRADE AND COMMERCIAL POLICY

I now turn to consider the main developments in our external trade relations. In perhaps no other field of our economic life are events moving more quickly or dramatically. With new regional trade groupings either established or in the process of being created, Canada is confronted with fresh challenges and the need to adjust to them. In the face of these developments, and against the background of the recent slow down in our rate of economic growth, the government has been urged from various quarters to alter radically and immediately our traditional commercial policy. In some quarters it has been advocated that we should move toward economic self-sufficiency supported by a highly restrictive trade policy. Others would have us alter our course sharply in the opposite direction by merging Canadian industry and agriculture in some regional economic grouping. In these circumstances it would seem timely to examine afresh the major tenets of our commercial policy objectives.

Let me say at the outset that I reject categorically these extreme positions which are being urged upon us. These are counsels of fear and even despair. Attempts to isolate ourselves from the trading world through the imposition of trade barriers would do irreparable damage to the Canadian economy. It would mean a loss of markets and the stagnation of our most efficient export industries. Standards of living of the Canadian

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people would decline and our economy would atrophy. It would mean running counter to the whole trend of international economic policy in the major trading countries. It would lead to regional disunity at home and a weakened voice at international council tables.

Nor can I see any gain for Canada in abandoning our present broad trade relationships in favour of joining a regional trade grouping. We shall, of course, have to adapt to changes in the world around us and be alert and flexible in meeting new challenges and opportunities as they arise. For the present at least the situation is much too unsettled to consider seriously a sharp reorientation in our policies along these lines.

Today our foreign trade and other economic ties link us to all parts of the world. With the attainment of convertibility and the removal of quota discrimination against our goods, there are increasing opportunities to extend our markets in many directions. I find it hard to see how, in our particular circumstances, a discriminatory alignment with individual countries or regional groups can help us to diversify and expand our foreign commerce, or fail to do damage to our trade relations with countries against whom we would be turning our backs. Nor have I been convinced that a sweeping elimination of our tariffs in relation to any existing trade grouping can be reconciled with a healthy secondary industry or the balanced growth of the Canadian economy.

I do not believe that the economic problems which confront Canada today require a drastic redirection of our trading relationships; or that these problems cannot be overcome by a vigorous pursuit of our present trading policies judiciously adjusted to meet changing world conditions.

What then are the commercial policies we intend to pursue? Our broad objectives in the trade field have been stated in unequivocal terms on earlier occasions. They are clear.

1. To achieve expansion, diversification, better balance and greater stability in our over-all trade and in our trade with commonwealth and other countries.

2. To support and promote a regime of law and order in international trade; to respect our international commitments; and to stand ready to defend our rights and interest.

3. To recognize the legitimate needs of Canadian producers; to safeguard them against unfair trading practices; and to promote the balanced growth of all sectors of Canadian industry and agriculture.

These have been the guiding principles and objectives in our foreign trade relations since

this government took office four years ago. I believe that they are the right policies to pursue today.

Looking back I believe that we can derive considerable encouragement from the success we have had in moving toward these aims. Our exports in 1960 were the highest in our history. The deficit in our external commodity trade for the year 1960 was less than one quarter of the peak level of 1956. Imports are no higher than four years ago and, speaking broadly, our domestic industries are supplying a higher proportion of a growing domestic market. Our trade with individual countries is in better balance and we have enjoyed a gratifying measure of diversification in our export trade both in terms of products and destination.

Looking ahead I am confident that a continued and vigorous pursuit of these objectives will lead to further successes despite the difficulties and uncertainties that exist in several important areas of world trade. As the very high levels of business investment of recent years bear increasing fruit in the form of increased export and import-displacing production, we can look to increasing surpluses in our external commodity trade accounts and reduced deficits in our current account balance of payments.

The movement to a better trade and payments balance will be substantially enhanced as we achieve an external value of the Canadian dollar more appropriate to our present economic situation.

We live in a country rich in many resources, natural and industrial, a country capable of producing many products in great quantity and at competitive prices. Our high standard of living has always depended in large measure upon our ability to sell in world markets the products in which we excel in exchange for those in which other nations have special advantages. It is self-evident that a country which depends on foreign trade for one quarter of its national income must seek to maintain the widest possible system of world trade and payments, a code of international practice to govern that system, and a reasonably diverse balance of interest among external markets.

For very good reasons, therefore, we have consistently supported the general agreement on tariffs and trade and the international monetary fund, and we shall continue to do so. This, of course, is not to say that we shall pursue a blind or inflexible adherence to the specific tariff bindings incorporated in the GATT agreements where the circumstances confronting particular Canadian industries require that they should be modified. The GATT makes provision for the renegotiation and modification of bound rates of duty and we have found it convenient from time to time to make use of this flexibility. In most cases these changes to bring our tariff up to date and adjust it to the changing needs of Canadian industry have followed comprehensive investigations and reports by the tariff board.

In the past several years we have introduced modernized tariffs for basic iron and steel, pipes and tubes, fresh fruit and vegetables, a large part of the textile schedule, as well as for other products. This evening I shall be proposing further changes affecting textile products, nails and several other items. We regard this task of modernizing the tariff as a continuing process and we have recently enlarged the tariff board to permit it to undertake more tasks and to handle its work more expeditiously. In every case where the tariff items in question were bound under the GATT agreements we have entered into negotiations with the interested countries and reached agreements satisfactory to both sides. We have endeavoured through this system of selective tariff adjustments to allocate the available protection to those products and industries which would improve the over-all efficiency of the economy and maximize production and employment in Canada. This, of course, has meant tariff decreases for some items to offset increases for others with no over-all increase in the incidence of protection.

We have pursued Canada's trade interests in the commonwealth through the commonwealth trade and economic conference and other commonwealth meetings, as well as through direct discussions with the United Kingdom and other commonwealth countries. We maintained a close contact with the previous United States administration in economic affairs and have already established an intimate and friendly working relationship with the new administration. We had a particularly valuable meeting of the joint ministerial committee on trade and economic affairs in March in Washington followed by visits to Ottawa of the United States secretaries of agriculture and the interior and then the visit of President Kennedy.

An important part of our success in achieving greater diversity and a better geographical distribution of our export trade has been associated with a substantial increase in our exports to the United Kingdom and continental Europe in recent years. Naturally we are intensely interested in the nature and direction of the regional trading arrangements in which these countries are participating.

The six continental countries comprising the European economic community have agreed upon a common external tariff to be

established in stages over the next ten years or so. In accordance with the GATT rules governing customs unions, these countries have had to renegotiate their previously bound tariff rates in order to maintain the balance of their trading arrangements with other members of the GATT. This renegotiation has now been substantially completed in the current tariff conference at Geneva. I can now report that as far as Canada is concerned good progress has been made in these renegotiations although discussions on certain important agricultural and other products are still continuing.

In mid-May the countries participating in the tariff conference decided that the renegotiations with the Six had proceeded far enough that a date could be set for the opening of the fresh round of general tariff negotiations in Geneva which were first proposed by the present secretary of the United States treasury and have thus become known as the Dillon negotiations. The general negotiations began on May 29th. Canada is participating in these negotiations. It is our hope that they will result in the further reduction of tariff barriers against Canadian exports. In particular, one would like to see the reduction of the tariffs of such powerful industrial areas as the United States and the European economic community where present levels of protection on many products are still, in our view, inappropriately high.

In earlier years when the countries of western Europe were reconstructing their war-torn economies, Canada extended to them the full benefits of tariff concessions and generous access to our markets despite the fact that these countries were applying discriminatory trade restrictions against our exports in order to conserve their limited exchange reserve. Restrictions and discriminations have now largely disappeared, at least in the industrial sector. Now that these countries have regained their economic and financial strength we would like to see the remaining restrictions removed, including the restraints in the agricultural sector. We would also regard it as especially appropriate for those countries which are in a strong competitive position to take advantage of their favourable trade and payments position to reduce their tariffs and provide fuller opportunities for an expansion of world trade.

The United Kingdom government is increasingly concerned about the dangers it sees in remaining outside the European economic community of the Six, and is actively engaged in seeking a basis upon which it could join this grouping. The United Kingdom has not yet taken a decision but has indicated that should a decision be taken to negotiate with

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the Six there would have to be arrangements to take into account the essential trading interests of commonwealth countries. For our part we have made it very clear that vital Canadian trade interests would be affected by such a move. Other commonwealth countries have expressed similar concern.

The Canadian government has kept in continuous contact with these developments in Europe. The time has now come when full consultations on a ministerial level are required. The United Kingdom has proposed that the secretary of state for commonwealth Relations should come to Canada for this purpose and arrangements are being made for such a visit in the near future. The effectiveness of this consultation will depend, of course, on the extent to which the United Kingdom is able, in advance, to provide us with specific information. While such consultations on a bilateral basis are clearly essential the Canadian government is urging that there should also be full opportunity for joint consultations among all commonwealth countries.

A very high proportion of Canadian exports to the United Kingdom enters that market free of duty, many with the benefit of tariff preferences, some without. Free entry is accorded not only to industrial materials but to agricultural products and nearly all manufactured goods as well. This is of great importance for the volume, diversity, and geographical distribution of our exports.

Moreover, this historic right of commonwealth free access to the United Kingdom market for agricultural products, industrial material and most manufactured goods is the keystone of the commonwealth trading system. Not only for economic reasons, but for political reasons as well, we would not wish to see this system abandoned.

We shall take every opportunity to ensure that the Canadian position is fully understood and our interests protected. We shall follow vigilantly the course of any discussions between the United Kingdom and the Six. Whatever may be the outcome we shall seek to preserve the most favourable terms of access to both these markets, and will pursue whatever policies may be required to achieve this end.

The new organization for economic cooperation and development may well have an important role to play at an appropriate stage in the further consideration of arrangements between the two trading groups in Europe. The house is well aware that the Canadian government has played a full and constructive part in the creation of the O.E.C.D., and we were pleased that Canada

was the first country to ratify the new convention. We look to it for increasingly close co-operation in all aspects of economic policy.

We do not believe the O.E.C.D. should detract from the strength and importance of the more broadly based organizations in world trade and international finance; the general agreement on tariffs and trade, the international monetary fund and the international bank for reconstruction and development. Moreover we do not forget that many important trading countries are not members of the O.E.C.D., for example Australia, India and Japan.

Canada's trade with Japan last year reached record heights in both directions. Japan is our third largest market, and our second largest for wheat. Japan is a very efficient producer of a wide range of manufactured products and can make these available in our market at very low prices. The Japanese, however, accept the principle that the growth of their exports of products which compete with our own production should be orderly and that they should avoid market disruption. Their method of applying this principle is through the maintenance of voluntary export restraints. We believe that this system is working reasonably well to permit an orderly expansion of two-way trade with Japan, while at the same time avoiding excessive penetration in sensitive sectors of our markets. Hon. members will recall the statement I made to the house on May 19 outlining the Japanese voluntary controls for 1961.

Other low cost producers, notably Hong Kong, have thus far not been willing or able to apply a similar system, and there have been some rapid increases in imports of a number of textile products. As I reported to the house on May 23, we are urgently seeking an equitable solution to this problem in co-operation with the United Kingdom and the United States. Failing this we shall, of course, have to adopt other methods in defence of the legitimate interests of Canadian producers.

The problem of market disruption or fear of market disruption, particularly in the field of textiles, is widespread throughout the industrial countries. The real difficulties for countries such as Canada and the United States which do not impose import restrictions are unduly aggravated by the maintenance of severe restrictions by many other countries, particularly in western Europe. We are now engaged with the United States and other countries in a co-operative international effort to achieve a more equitable sharing of the impact of the international movement of textiles.

TARIFF BOARD REPORTS AND OTHER TARIFF CHANGES

The rates of duty on most items of significance in the Canadian tariff are, as hon. members well know, bound against increase under our GATT agreements, and have been since 1947. This does not remove all possibility of change, but it does make upward adjustments difficult. A necessary preliminary is to renegotiate under GATT any bindings which are affected by the proposed changes. If tariff increases are proposed, it becomes necessary to find acceptable compensation to offer in exchange. This is no longer easy, as the Canadian tariff has been combed repeatedly for concessions to offer during the successive rounds of negotiations in which Canada has participated.

For that reason I am particularly glad to be able to announce tonight that we have substantially concluded renegotiations which will permit us to implement in this budget the recommendations which were made by the tariff board in the three reports on textiles which it submitted last year. These three reports covered hosiery and knitted goods; narrow fabrics and lace; and wool clothing and manufactures. We are also implementing the recommendations made by the board in its earlier report on record changers, and subject to a modification to which I shall refer later, the recommendations contained in the board's most recent report on nails.

The details of all the proposed changes arising from these tariff board reports are set out in the resolutions which I shall table tonight. In regard to them there are only two comments of a general nature which I wish to make at this time. The first is that if parliament approves these resolutions, the government will be in the position of having implemented, without major change, every tariff board report submitted from the day we assumed office right up to date. My second comment is that such departures from the tariff board's recommendations as have been made or are now proposed will provide, on balance, somewhat more protection for struggling sectors of the Canadian textile industry than they would otherwise have had.

When hon. members examine tonight's resolutions in detail, they will discover four departures from the recommendations made by the tariff board in the various reports on textiles to which I have referred. Two of these departures relate to the items covering hosiery and knitted goods. The tariff board recommended that the most favoured nation tariff on the main knitted goods item be reduced from 35 per cent to 32½ per cent ad valorem, and that the specific component of the compound duty on non-woollen hosiery

be reduced from 75 cents per dozen pairs to 60 cents per dozen pairs. However, after reviewing the position of the Canadian hosiery and knit goods industry, the government decided that it would not be desirable to introduce these tariff reductions at this time.

The third departure relates to tapes, ribbons and other narrow fabrics of man-made fibres, which are now classified under several different items at various rates of duty. The board suggested a new item to cover them at rates of B.P. 22½ per cent and M.F.N. 25 per cent. As a concession to the industry, particularly that sector engaged in the production of synthetic tapes and other narrow fabrics now classified under item 562a at higher rates of duty, I propose rates of B.P. 25 per cent and M.F.N. 27½ per cent.

The fourth departure involves a downward modification in a rate recommended by the board. This was introduced in the course of negotiations in order to meet a special problem in our trade with Italy. It involves applying a ceiling of 37½ per cent to the compound duty which the board proposed in respect of travel rugs, so as to avoid an unduly high rate on certain low priced rugs imported from Italy.

The next tariff board report to be considered relates to nails. The board recommended changes in two of the three nail items. These involved a reduction in the ad valorem M.F.N. duty applicable to tacks and small nails, and an increase in the specific M.F.N. duty on large nails, accompanied in the latter case by a smaller increase in the B.P. rate. Thus the board's recommendations, if adopted without change, would result in a small increase in the margin of preference in the one case, and a reduction in the other. The former would constitute a breach of the "no new preference rule" of the GATT. Accordingly we have decided to adopt the board's recommendations regarding the M.F.N. rates of duty, and in each case to introduce a corresponding alteration in the B.P. rate, so as to maintain each of the present margins of preference without change.

Thus far I have referred only to amendments arising from tariff board reports. These comprise the bulk of the tariff changes to be proposed at this time. There are others, and in most cases these too have been the subject of negotiations. They involve negotiated upward adjustments in the rates of duty on eviscerated chicken, paper twine, lawn rollers, hoes, forks and rakes, power lawn mowers, and filmed T.V. commercials. At the same time balance has been maintained in the over-all level of our GATT commitments and in the over-all level of the Canadian tariff by offering equivalent concessions on certain other items. These include pineapple juice, parts and engines for power lawn mowers, parts for cement block-making machinery, and motorcycles. The rate on live poultry is being equalized with that of the United States. It is expected that the effect of the proposed changes, both the increases and the decreases, will be to promote additional production and more jobs in Canada. It is hoped also that the proposed introduction of a minimum duty of five cents per pound on eviscerated chicken will materially assist the Canadian broiler industry, which has long complained of inequities between the Canadian and United States tariffs on its products.

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There is also a miscellaneous group of other tariff changes to be found in the resolutions. These involve adjustments and clarifications which are not of general interest but nevertheless are important to those directly concerned. They include cabs on combines. I shall, of course, be glad to provide the house with a full explanation of these changes in the committee of ways and means.

I might add that at the committee stage I hope to be in a position to introduce a supplementary resolution relating to sodium hypochlorite laundry bleach. This product was reclassified in consequence of a recent supreme court decision. However it would seem appropriate to restore and maintain the former rates of duty pending a report by the tariff board on this and other products included in the chemical reference. Accordingly we have initiated negotiations on the matter under the "special circumstances" clause of the GATT, and I expect that these negotiations will be completed in the very near future.

As I mentioned earlier, a general round of tariff negotiations is now in progress in Geneva under the auspices of the general agreements on tariffs and trades and is expected to continue for several months. A number of the requests that I have received for reductions in Canadian tariffs are still under consideration in connection with these negotiations.

FEDERAL-PROVINCIAL RELATIONS

During the past year we have held three dominion-provincial conferences for the purpose of reaching agreement with the provinces on the form of the financial arrangements which should exist after the expiry of the present federal-provincial tax-sharing arrangements on March 31, 1962. At the first of these conferences held July 25-27, 1960, the provincial premiers presented their views. I might add that the financial substance of their proposals could hardly be described as

modest since in aggregate they would have resulted in additional federal costs in excess of $2 billion per annum. Despite their rather startling character, these provincial financial proposals were carefully studied and at the conference held October 26-28, 1960, the Prime Minister made certain suggestions.

It had become evident that the tax rental system had certain major defects. It placed the whole responsibility for levying these taxes on the federal government. The provinces took no responsibility for imposing the taxes upon which they depend for revenues nor had they any freedom whatever to amend tax rates in accordance with their current needs. Defects such as these are undesirable at any time, but in a period of rapidly increasing provincial demands and heavy federal responsibilities their effects have been particularly serious. The federal suggestion made at the October conference was that the provinces might consider again imposing their own taxes in the fields of personal income tax, corporation income tax, and succession duties. To facilitate this, the federal government was prepared to recommend to parliament that federal tax rates in the three shared tax fields be reduced at the termination of the present agreements by the existing standard rates. Under the present arrangements which refer to three standard taxes, the provinces receive 13 per cent of personal income tax collections, 9 per cent of the taxable income of corporations, and 50 per cent of succession duties or estate tax, and these standard rates are referred to in abbreviated form as the 13-9-50 formula. Coupled with this suggestion was provision for the continuation of equalization payments to the provinces.

On the basis of the discussion of these suggestions and further intensive consideration, the federal government advanced certain proposals at the dominion-provincial conference of February 23-24 this year. The Prime Minister's statement to the conference was tabled as an appendix to *Hansard* of February 28. It is not my intention therefore to review these proposals in detail at this time except in so far as they have immediate budgetary implications. The main proposals were that the tax rental system be discontinued, that the provinces should impose their own taxes, and that a fairer and more realistic system of equalization be introduced. At the same time the federal government undertook to reduce its income tax rates to a larger extent than was suggested at the October conference. In addition, the federal government is prepared to collect income taxes for any province which wishes to enter into an agreement to this end. In short, it was proposed that the provinces would reassume their constitutional rights and responsibilities to impose and vary their tax levies as they saw fit.

I have mentioned that the proposal made was that a fairer and more realistic system of equalization be introduced. It has always been the contention of this government that equalization payments to the provinces are absolutely essential. Without such payments it would be quite impossible for some of the less wealthy provinces to provide a reasonable standard of services without resorting to taxation far in excess of the national average. There is no question that to preserve reasonable equality in the provision of services across this country we must provide for some equalization of revenues. The proposed new arrangements have therefore been buttressed by an improved system of equalization and special payments which is more realistic and gives greater weight to fiscal need.

In the first place, the special fiscal circumstances of the Atlantic provinces have been recognized anew by the proposal to increase the Atlantic provinces adjustment grants by 40 per cent or from $25 million to $35 million for each of the five years of the new period. Second, it is proposed that the additional grant of $8 million per annum to Newfoundland be continued for a further five years. Third, it is proposed that the equalization formula be broadened to include, in addition to the yield of the three standard taxes, 50 per cent of the three year average of natural resource revenue and that the basis of equalization be changed from the average yield in the two provinces with the highest per capita yield to the national average. Variations as between provinces in resource revenues are a major factor in the financial position of the provinces and the inclusion of this factor in the equalization formula greatly improves the position of the less wealthy provinces. Equalization based on standard tax yields in the top two provinces led in some instances to larger payments than could be defended on the basis of fiscal need. The use of a national average formula as a basis for equalization payments will give adequate recognition to the principle of fiscal need without placing unnecessary demands on the federal treasury.

One further aspect of the federal proposals merits special reference at this time. From 1947 to 1957 under agreements, and since then from year to year without an agreement, the federal government has paid to the provinces half of the federal income tax collected in respect of income derived form the distribution to or generation for distribution to the public of electrical energy, gas or steam by corporations whose main business

is such distribution or generation. At the conference we proposed to continue these arrangements for another year. In compliance with the representations of the provinces it is now proposed that this sharing be continued throughout the next five years, that is, sir, during the period of the proposed arrangements. From a federal revenue standpoint, this proposal to continue sharing with the provinces on an equal basis the corporation tax from this source is equivalent to a reduction in federal tax. Under the arrangements now proposed, the provinces will be in a position to complement this federal action by policies which could benefit the industry and the consumers.

The government wishes to spare the provinces the expense of setting up separate tax collection machinery and to contribute as much as possible to simplicity, convenience and uniformity in the tax system. It therefore offered to collect on behalf of the provinces the provincially imposed personal income taxes and corporation income taxes free of charge provided the provincial tax base was identical with the federal tax base at all times. This offer could not be extended to the estate tax since the provinces do not have the constitutional power to levy an estate tax on the federal basis. The federal offer in this instance therefore was that any province not levying succession duties would receive half the yield of the federal estate tax while an abatement of 50 per cent of the federal estate tax would be granted as at present to provinces levying their own succession duties.

The federal offer to collect the provincial taxes free of charge obviously leaves the provinces with freedom and flexibility to impose their own rates of tax, a freedom they were denied under the rental system. At the same time it encourages them not to complicate the task of the taxpayer. At a later date, after the necessary legislation has been put before parliament and approved, it will be possible to work out the precise terms of tax collection agreements with those provinces which wish to avail themselves of the federal offer.

The proposal to return to the provinces the responsibility of levying taxes on the income of individuals and corporations was accompanied by a promise that the federal government would ask parliament to provide for reductions in the federal rates of tax. In the case of the corporation tax, the federal reduction is to equal the abatement of 9 per cent of taxable income now granted. In the case of the personal income tax, the reduction is to increase by one percentage point each year from 16 per cent of the level of federal tax which would otherwise prevail in the first year, to 20 per cent in the last year. The provincial share of the yield from the personal income tax will thus rise by the final year of the agreement to exactly double the level of 10 per cent in effect when the present government came into office in 1957. The provinces will of course be quite free under this system to reap higher yields by imposing higher rates of tax if they choose to do so.

I have spoken of the advantages to the provinces of the freedom and flexibility which the new arrangements can bring. From the federal standpoint there are also great advantages. It will mean that the federal government will no longer have to impose rates of tax high enough to meet the demands of provincial expenditure. The federal budget will no longer be inflated by what are essentially taxes for provincial purposes. It will mean very substantial reductions in the rates of federal tax.

I should like at this point, if I have the permission of the house, to insert in *Hansard* a table showing the amount of the federal contributions to or for the benefit of the provinces for the last five years together with the estimated amount for the year 1961-62.

Mr. Speaker: As the minister advised, he has three tables which he wishes to have inserted. Perhaps the house will give its consent to the inclusion of all three without his having to mention the other two.

Some hon. Members: Agreed.

[*Editor's note: The table referred to above, follows:*]

TABLE 1

FEDERAL CONTRIBUTIONS TO OR FOR THE BENEFIT OF THE PROVINCES
(in millions of dollars)

	1956-57	1957-58	1958-59	1959-60	1960-61 (preliminary)	1961-62 (estimated)
A. Unconditional payments—						
1. Statutory subsidies..........	22.8	22.0	21.6	21.4	21.0	23.1
2. Tax abatements (estimated).	157.3	275.6	275.1	313.8	303.7	323.5
3. Tax rentals..................	365.9	213.9	249.0	279.7	288.7	298.8
4. Equalization (including stabilization....................		139.5	149.1	180.7	191.2	191.6
5. 50 per cent share of income tax on power utilities..........	6.6	7.4	8.7	4.8	4.2	6.0
6. Atlantic provinces adjustment grants....................	—	—	25.0	25.0	25.0	25.0
7. Term 29 award (Newfoundland).....................	—	—	13.6	7.3	7.7	8.0
Sub total...............	552.6	658.4	742.1	832.7	841.5	876.0
B. Conditional payments—						
8. Agriculture..................	0.9	1.0	1.9	6.7	3.7	2.0
9. Health......................	36.4	34.6	45.9	46.0	48.0	45.4
10. Hospital insurance...........	—	—	54.7	150.6	189.4	274.5
11. Welfare......................	38.4	48.2	74.1	90.9	103.1	96.0
12. Vocational training, etc......	4.7	4.8	8.1	8.4	8.8	27.3
13. Highways and transportation.	26.9	50.9	53.7	56.7	48.7	54.1
14. Resource development.......	2.7	4.3	8.7	15.3	17.9	21.2
15. Municipal winter works......	—	—	0.2	6.6	8.9	26.9
16. Other.......................	1.0	1.0	1.1	1.6	3.0	2.6
Sub total...............	111.0	144.8	248.4	382.8	431.5	550.0
C. Payments for the benefit of Provincial Institutions—						
17. University grants............	16.0	16.6	25.5	26.1	19.0	19.4
18. Grants to municipalities in lieu of taxes on federal government property..........	9.7	17.5	21.9	22.6	24.5	24.7
Sub total...............	25.7	34.1	47.4	48.7	43.5	44.1
TOTAL.............	689.3	837.3	1,037.9	1,264.2	1,316.5	1,470.1

Mr. Fleming (Eglinton): The total of these payments and abatements has risen from $689.3 million in 1956-57 to $1,470.1 million in 1961-62, or more than double. Included in this total is an estimated amount of $298.8 million for tax rentals in 1961-62. This amount includes $13.5 million for rental or succession duties which will not be eliminated under the proposed collection agreements, but even allowing for this and assuming a modest growth in tax yields, the change to a tax collection system will remove more than $300 million from the federal budget next year which will be the first year of the new five year period. I am accordingly submitting proposals tonight to reduce federal taxes effective January 1, 1962, by $300 million per annum.

INCOME TAX

I shall proceed now with tax changes. I have already referred to the principal considerations of policy which motivate this budget. The general levels of taxes are not being altered at this time. I am bringing forward some important amendments, however. Aside from the reductions of income taxes connected with our undertakings to the provinces, with which I have already dealt, I am providing for tax reductions to the extent of about $100 million in a full year. I am also proposing several new measures pertaining to the structure of the tax laws. The various amendments are intended to improve the conditions of industry, to provide additional employment and to contribute to the general welfare. Some of them will further the efficiency and the equity of the tax system.

Reduction of the exchange rate will provide new and significant price advantages to goods made in Canada in comparison with those made in other countries. More than any other policy that could be adopted, a

lower exchange rate will be of signal assistance to all of our producers, both in primary and in secondary industries, to those who export as well as to those who sell at home. It is for Canadian industry now to make the most of the new opportunity which is theirs. As I have already explained, the benefits of a lower exchange rate take the form of price differentials and they tend in time to disappear. Thus these benefits are at a maximum during a limited period of time.

Many of our industries are at present competing in fields in which large portions of domestic needs are being supplied by imported goods. Frequently the Canadian manufacturer is capable of extending his market greatly with improved efficiency, with lower costs of production and with more competitive prices. This is as true of markets abroad as of those at home.

It is of the utmost importance that Canadian manufacturers should extend their markets. More than anything else, the government is concerned about employment. To secure a maximum increase in employment it is desirable, I should say essential, that every industry, every business and every labour organization should give renewed thought to the increase of productivity, the improvement of efficiency and the competitiveness of costs and prices. This is the constructive and effective way to deal with the problem of employment in our free enterprise economy.

Many of our major industries are well equipped, up to date and fully competitive with those of other countries. Huge capital investments have been directed to this end. Other industries are not at present as well able to compete for business at home and abroad. Probably every enterprise in the country is capable of doing more than at present and of doing it better.

Frequently, the most difficult aspect for an individual business to undertake unaided is the financing of expensive new capital installations, including machinery, equipment and buildings. The government has decided to give help at this point by introducing an allowance for re-equipment and modernization.

This special incentive will take the form of a 50 per cent increase in the first year in the rates of capital cost allowance applicable to new assets acquired for use in Canada from tonight until March 31, 1963. This special allowance will be available in respect of all depreciable assets which are eligible for depreciation by the diminishing balance method. A business will be permitted at its own option to take advantage of this substantial tax concession to the extent that its investment during a taxation year on new depreciable assets for use in Canada is in excess of its expenditure on such assets in its last complete fiscal period that ended before tonight, or in excess of the average of its expenditures in that period and its two immediately preceding fiscal periods.

[Mr. Fleming (Eglinton).]

The purpose of this latter limitation is to provide the desirable incentive at a minimum cost. As any businessman would do, I am trying in this case to obtain a maximum result in return for treasury dollars. By applying the re-equipment and modernization allowance only to expenditures in excess of those in a recent base period, I am attempting to establish a rule by which to make this valuable concession available to those who are genuinely increasing the level of their investment in new depreciable assets but not to that large total of depreciable assets most of which would have been acquired in any event.

As far as new companies and new operations are concerned, it has been decided that the same formula should apply as in other cases. A new company, for example, will be able to claim the special allowance with respect to the whole of its investment in new depreciable assets for use in Canada since it has made no comparable investments in former years. On the other hand, the Department of National Revenue will be empowered to withhold the re-equipment and modernization allowance in cases where existing operations are split up into new ones merely for tax-defeating purposes. Capital cost allowances will continue as before to be limited in total by the cost of acquisition. They are not to exceed 100 per cent.

Hon. members are familiar with the new program which was inaugurated in the supplementary budget of December 20, 1960. Double depreciation for the first year or its equivalent in a later year was offered with respect to capital investments for products which are new to Canada as a whole or to designated areas of surplus manpower. As is usual with such matters, interested persons took some time to consider the possibilities in relation to their own affairs and their own plans. Following a time lag that was not unexpected, an increasing display of interest is being shown on the part of potential manufacturers of new products. Since the announcement of the regulations covering the plan, close to 300 inquiries had been received by the Department of Trade and Commerce by the end of May. Furthermore, interest in the program has increased in recent weeks as reflected by the fact that the number of applications received by the Department of

Trade and Commerce doubled in May, compared with March and April combined.

Applications for accelerated depreciation have been made by firms producing a wide variety of products. These include chemicals, steel, textiles, electronics, plastics, foods and other products. Thus, a representative cross section of Canadian secondary industry is seeking to take advantage of accelerated capital cost allowances under the December program. Some firms are establishing new plants, while others are enlarging their present facilities in order to make new products and thus diversify their output. These enquiries and applications have been made by firms located in many regions of Canada. The value of the assets covered by these applications exceeds $27 million. We anticipate that a steady increase will occur in the number of applications as businessmen develop a better understanding of the program.

Considering the fact that this program has been in effect a limited period of time, the government is pleased with its acceptance to date. The new projects resulting from the program will create additional employment in the industries supplying the new plants and facilities. Further, there will also be additional jobs for those working in the new plants. Another benefit is that new products are likely to be introduced which should make a useful contribution to further diversification of our secondary industries.

It is not intended to modify or amend this double depreciation program. Rather it is intended that the new re-equipment and modernization allowance can be claimed in addition by those who qualify for double depreciation in either the new product or the new designated area categories.

In the conditions that exist today, scientific research is to be assigned a top priority of urgency and importance. It must play an increasing and indispensable part in all sections of industry and in many aspects of every day life. Much has been done in the laboratories maintained by the government, both in basic and applied research and in development. In addition, the federal government has given greatly enlarged assistance to universities and private industry to stimulate scientific research and it will be giving more. If Canada is to maintain its due place in the world, advances must be made in these fields of science. I am proposing to extend the deductions now allowed to taxpayers in respect of expenditures on scientific research undertaken in Canada. These are already extensive but it now seems appropriate to take further steps in this direction as part of the government's program to assist Canadian business to be efficient and up to date.

Canadian industries, particularly the subsidiaries of foreign companies, are too dependent on research done abroad. The government believes that more industrial research should be done right here in Canada. The measures being introduced tonight are designed to stimulate industrial research in our own country.

The Income Tax Act now provides that expenditures of a capital nature made on scientific research in Canada may be fully written off in three years. I am proposing that henceforth taxpayers be allowed if they wish to deduct such expenditures in full in the year incurred.

The act now provides that amounts deducted under the provision dealing with scientific research shall be limited to 5 per cent of the taxpayer's previous year's taxable income unless the research program has been approved by the Minister of National Revenue with the advice of the national research council. Although in practice approval is normally given, I believe that a modification of this requirement will give encouragement and certainty to taxpayers who are planning to increase their scientific research programs. I am accordingly recommending removal of this limitation with respect to expenditures so far as it affects current expenditures.

Finally, I am proposing that taxpayers be permitted a deduction from income in respect of expenditures on scientific research made at one stage removed, that is, in respect of amounts paid to a foundation established for the purpose of expending all its resources on scientific research in Canada.

I turn now to some rather different problems that have attracted an increasing amount of interest and concern. It has been concluded that the next major step in the private pension field should be to use the resources of government to encourage and assist the more widespread expansion of private pension plans on a secure basis. It is desirable that those who have been employed throughout their working years should be able to retire without fear of want. Having in mind the extensive provision now available to meet these needs through private pension plans it is important to ensure that such plans are generally available and adequate. To these ends, action is required at the appropriate government levels to fulfil two objectives, namely to protect the solvency of private pension plans and to help promote the portability of pensions. The house will recall that on May 9 and on May 24, 1960, I drew attention to the fact that federal jurisdiction in this field is limited. While there is a confined area within which the federal government has powers there are wider areas of provincial jurisdiction.

By the portability of a pension is meant the ability of a worker to accumulate a pension throughout his working lifetime even though he may change from one pensionable employment to another, perhaps on successive occasions. The government is concerned about persons who have worked with more than one employer but who on retirement can receive pensions based only on their service under the pension plan of their last employer. The income after retirement of those affected is a matter of great importance. In addition, the inability to carry pension rights away from a job, that is to say the absence of portability, may deter workers from transferring to more productive jobs. The portability of pensions may serve in a very constructive way as a stimulus to the productivity of the whole economy, by providing the individual worker with a wider range of free choice in seeking employment. In due course a contribution will be made by this means to increased employment.

In addition to these problems there is another which, fortunately, has seldom confronted us in recent years, namely the solvency of pension funds. The most important single requirement of a private pension plan is quite obviously that the requisite funds should be on hand when needed to pay the pensions. The insolvency of a pension fund could just as well prove to be disastrous to an employee who had spent all his working life with one employer as to another who changed his employment frequently.

The expansion of pension plans in the last 25 years has been phenomenal. In 1959 there were over 10,000 such plans in Canada of which 90 per cent were handled by insurance companies or the annuities branch of the Department of Labour. The remainder were trusteed plans where the contributions are deposited with a selected trustee for investment. Although constituting only 10 per cent of the number of plans, the trusteed plans in 1959 covered almost 1 million employees or 61 per cent of all employees under pension plans and their assets represented 64 per cent of the total.

As hon. members are aware, these pension plans are accorded valuable income tax concessions provided they are registered for this purpose with the Department of National Revenue. In general, tax deferral is granted during the period of accumulation and the pension benefits are taxed as personal income as and when they are received.

I doubt very much whether it is as well known as it should be that the federal government does not supervise or control the solvency of private pension funds; neither do the province, aside from establishing certain statutory responsibilities of trustees which pertain to only a small portion of this problem. These observations do not, of course, apply to pension plans whose detailed benefits are covered by a contract with an insurance company which guarantees the amount of pension to be paid in return for the contributions made by the employer and employees. There is, however, no governmental supervision to ensure that the assets of other plans are being accumulated at an appropriate rate to meet the future liabilities of those plans. Among these other plans I include both trusteed plans and those plans where an insurance company enters into a deposit administration contract and simply receives contributions on deposit without entering into a contract to pay specific amounts of annuity.

I should make clear at once that there is no necessity and no intention to cast doubts upon the vast majority of private pension plans which are efficiently and conscientiously administered by insurance companies and by personal or corporate trustees. What is projected is a degree of supervision of trusteed pension plans, in the public interest, comparable in some respects with the supervision traditionally exercised over insurance companies. Many people may be surprised to learn that no such supervision has existed in the past.

I warmly welcome the growing indications of provincial interest in this field. The governments of both Ontario and Saskatchewan have recently given evidence of their concern. The government of Ontario has indicated its desire to discuss this question with the other provincial governments and the federal government during the coming months. This interest of these provinces is particularly important because of the constitutional aspect of the problems.

This government shares the view that a joint federal-provincial approach should be made. To this end the government intends to arrange consultations with any interested provinces to give further definition to such a program and thus to provide encouragement for the more widespread establishment of pension plans. Accordingly, I am announcing at this time that the federal government has decided to seek the co-operation of the provinces in a program to deal with the solvency and portability of private pension plans.

Mr. Martin (Essex East): Two years too late.

Mr. Fleming (Eglinton): Better two than 22.

In the March, 1960 budget I announced the intention of the government to introduce legislation to incorporate a new approach to the taxation of employees' profit sharing plans. Hon. members will recall that a bill dealing with the taxation of deferred profit

sharing plans was given first reading only. This course was followed in order to give full opportunity to all interested citizens and organizations to study this complex issue.

The interest shown in the proposals introduced for study last year has been most gratifying. The briefs, letters and comments I have received have been of great assistance in preparing the legislation which I am now proposing. The substance of last year's draft bill will be brought forward, with several alterations and improvements, into this year's bill to amend the Income Tax Act. The legislation will provide that an employee will not be subject to income tax on amounts contributed to a profit sharing plan on his behalf by his employer until actually received as proceeds from the plan. As I stated last year, the improved facilities provided for employees' profit sharing plans will constitute an important piece of social legislation and provide fresh opportunities for labour and management to work out new forms of co-operation amongst themselves.

If parliament approves the recommendation for deferred profit sharing plans it will greatly increase the number of cases where an employee may receive a lump sum payment representing accumulated earnings which have not borne tax. If a taxpayer becomes a non-resident before receiving these payments there is at present no provision for levying a tax. This incentive to become a non-resident for a short time in order to gain a tax advantage should be removed. I am proposing that lump sum payments which represent deferred remuneration earned in Canada be regarded as income earned in Canada. This will apply only to lump sum payments. On the other hand, pensions paid to former Canadians who have become residents of other countries will continue to be free of Canadian tax.

There will be several amendments to the personal income tax designed to give relief. Last year this house approved a proposal to increase substantially the maximum amount of medical expenses for which a deduction may be claimed in arriving at taxable income. I believe that the amounts now deductible are sufficiently high to give full relief to most taxpayers who have incurred extraordinary medical expenses, but I am impressed with the intolerably heavy burden being borne by a small number of taxpayers whose expenses are in excess of the present limits. A single motor accident, for example, may cause a taxpayer more extraordinary medical expense in one year than another taxpayer would incur in a lifetime. Since the whole purpose of the deduction for medical expenses is to give relief to those taxpayers whose ability to pay income tax has been reduced by extraordinary expenses, it seems both logical and fair to remove the limits entirely, and I am so recommending. I am also proposing that the cost of an instrument which assists those who have suffered from cancer of the throat, an electronic larynx, be classed as a medical expense.

An intensive review is being made by the United States tax authorities of the treatment for tax purposes of contributions by residents of the United States to charitable institutions in other countries. During the past year there have been expressions of concern by Canadian universities and by their graduates and other supporters in the United States that the existing system might be changed to their detriment as a result of this review. In the past donations made through a United States corporation to a charitable institution in another country have been treated as deductible for purposes of taxes in the United States. There has never been a corresponding privilege in our income tax law, although there are, of course, residents of Canada who make contributions to universities and other charitable organizations in the United States. Because of the particularly close relations between Canada and the United States it is desirable and feasible to permit some exceptions to the general rule which denies a deduction in respect of donations to charitable organizations located outside Canada. Thus our income tax convention with the United States provides some limited exceptions and our estate tax convention with the United States, recently approved by the house, contains a more general provision for ignoring the border as far as charitable organizations are concerned. We have accordingly notified the United States authorities that whenever they are ready, Canada is prepared to enter into negotiations to amend the provision of the income tax convention that deals with charitable donations. In the meantime, it is understood that the United States authorities are aware of the close relations between universities in one country and their graduates and friends residing in the other and are anxious to maintain and foster these traditional relationships.

In the 1960 budget speech I drew attention to another matter which was marked for special study during the year. This was the problem of the taxation of corporation surpluses and the designation of surplus under section 28(2) of the act. I appreciate the many carefully considered observations and suggestions that have been submitted in answer to my request. With the assistance of these submissions members of the Department of Finance and the Department of National Revenue have been engaged in a comprehensive study of these provisions of the income tax law. This study has not yet advanced to the stage where

I can place specific proposals before parliament. This subject will continue to receive close attention during the coming year.

I am proposing a comprehensive overhaul of the definition of a personal corporation and the rules for taxing shareholders of such corporations. A personal corporation is one used to hold the investments of the individual and persons related to him. All the income of such a corporation is deemed to be distributed to its shareholders each year. It has become apparent that this legislation contains some anomalies and some provisions which are lacking in clarity. I have reached the conclusion that the time has come for a revision of this complicated piece of legislation. Some of the proposed changes will be relieving. For example, I am proposing amendments concerning the right to carry forward losses and the option to compute tax in a special way on the recapture of capital cost allowances. These are introduced in response to requests that income received through a personal corporation should be granted the same tax treatment as income received directly. Other changes will be designed to prevent personal corporations being used to split income with members of a taxpayer's family and to thwart devices for postponing tax on income from investments.

Hon. members are aware of the many ways in which the income tax law provides incentives to taxpayers to develop our natural resources. At present, in addition to corporations whose principal business is mining or producing petroleum or natural gas, corporations whose principal business is processing mineral ores and metals recovered therefrom are allowed to deduct expenses incurred in exploring and drilling for minerals, oil and gas. I am proposing to extend these incentives by permitting companies whose principal business is fabricating metals to deduct such exploration expenses. In future, therefore, these companies will have a greater incentive to search for their own supplies of raw materials.

Other amendments proposed for natural resource industries will permit a mining, petroleum or natural gas company to deduct preproduction expenses incurred by a former subsidiary.

Our income tax law must be continually reviewed and adjusted not only to provide appropriate encouragement to the legitimate needs of taxpayers but also to achieve equity among them. The government has become increasingly concerned over the evidence of abuse by some taxpayers of the provisions for the deduction of amounts expended for the purpose of gaining income from a business. The question is to what extent amounts spent by a firm for the entertainment of its customers and the travelling expenses of its

[Mr. Fleming (Eglinton).]

employees are really required in order to gain income. Since ours is a free enterprise economy, our income tax law assumes that the businessman is the best judge of the extent to which he should incur expenses of this nature, and naturally the government has been reluctant to recommend, and parliament to impose, rules that would restrict him unduly in this respect. However, the government has no intention of allowing so-called "expense account living" to thrive and I am consequently serving notice that in future the allowance of expenses of this nature will be subject to more intensive scrutiny. I am hopeful that more stringent legislation will not prove to be necessary.

One of the most important factors affecting the income tax status of a person, either individual or corporate, is the determination of his country of residence. I am proposing that a corporation incorporated in Canada which is carrying on business in this country be deemed to be resident here. I am also proposing that the provision deeming an individual who is a member of the military or public services on duty outside of Canada to be a resident shall extend to his wife and dependent children so that they will have the same tax status.

Finally, I am proposing that volunteer firemen be relieved of income tax on amounts up to $300 per year paid to them to cover expenses they incur while engaged in firefighting duties.

SALES AND EXCISE TAXES

I am proposing a number of changes in commodity taxes. The first of these concerns the structure of the tax on cigarettes imposed under the Excise Act. This tax is levied at the rate of $4 per thousand for cigarettes weighing not more than 2½ pounds per thousand. If cigarettes weigh more than this limit the tax is $5 per thousand. I am recommending that this dividing point where the higher rate of tax commences to apply be raised so that in future cigarettes may be manufactured weighing as much as three pounds per thousand before becoming subject to the higher rate of tax. This will permit manufacturers to increase the amount of tobacco in each cigarette without becoming liable for a higher tax. I am assured that this will lead to a signifiant increase in the amount of tobacco used in the cigarette industry. This will bring substantial benefits to Canadian tobacco growers. In order to give all cigarette manufacturers time to make any necessary modifications in their equipment to take advantage of this change the amendment will not become effective until January 1, 1962.

With the exception of the taxes on tobacco products and wines, most of the taxes imposed under the Excise Tax Act are on an ad valorem basis. A tax in this form at the rate of 10 per cent or 15 per cent amounts to a very small amount per article where the taxable items are manufactured or imported at a very low price per unit. I have reached the conclusion that greater uniformity in the amount of tax on a number of items is desirable, especially as between imported and Canadian manufactured commodities. For this reason I am proposing that the present 15 per cent ad valorem excise tax on electronic tubes for radios, television sets and record playing devices be modified to provide that the tax shall in no case be less than 10 cents per tube. Similarly I am proposing that the 15 per cent ad valorem tax on radios shall bear a minimum of $2 per radio and the 10 per cent ad valorem tax on mechanical lighters shall be not less than 10 cents.

Turning to the sales tax, I am proposing several technical changes for clarification and also a number of exemptions from tax. These new exemptions, which are intended to recognize new products and technological changes, include laminated timber for bridges purchased by municipalities, self-propelled forage wagons for farm use, a new kind of casing used for seismic tests in oil and gas exploration and propane tanks for use with furnaces.

In addition to taxes on commodities, the Excise Tax Act contains a provision for imposing a 10 per cent tax on insurance premiums when insurance is placed with non-authorized insurers. There appears to be an increasing tendency on the part of non-resident corporations carrying on business in Canada, and also Canadian corporations which are controlled outside of Canada, to arrange their fire and casualty insurance in respect of risks in Canada either with insurers which are not authorized to transact the business of insurance in Canada or with insurers that are so authorized but through agents or brokers located outside Canada. Undoubtedly these practices stem from a desire to make all insurance arrangements at the head office of the corporation or at the head office of the parent corporation, as the case may be, rather than from any lack of adequate insurance facilities in Canada.

Since the practices referred to result in loss of insurance business that would otherwise be transacted in Canada and some loss in tax revenue otherwise payable to Canada, it is proposed as a first step to amend the provision of the Excise Tax Act which at present imposes a tax of 10 per cent of premiums paid by Canadian residents to unauthorized insurers in respect of insurance of property in Canada. The amendment will extend the tax to make it apply to all classes of insurance, whether of property or not, subject to certain exceptions. The exceptions proposed will be marine risks, as at present, life insurance, personal accident and sickness insurance and, to the extent that such insurance is not available in Canada, insurance against nuclear risks. The practice of arranging insurance of risks in Canada through non-resident agents and brokers is currently being studied and further steps, if found necessary, may be taken to curb this undesirable practice.

ESTATE TAX

I am not proposing any amendments to the Estate Tax Act this year. This act, originally passed in 1958 and amended last year, appears on the whole to be working satisfactorily. There have been a few representations suggesting changes, and these have been given careful study, but I believe that more experience with the law as it stands would be desirable before further amendments are made.

THE ROYAL COMMISSION ON THE AUTOMOTIVE INDUSTRY

Last August the government appointed Professor V. W. Bladen as a commissioner to inquire into the problems of the Canadian automotive industry. May I now, on behalf of the Prime Minister, and with the consent of the house, table copies of his report in French and English.

The most complex of the recommendations are those relating to the tariff rates on vehicles, and parts and components for assembly into vehicles. Hon. members will recall that the structure of our present automotive tariff schedule, which took shape a quarter of a century ago when Canada was a large exporter of vehicles, presents the following features. The rate against complete vehicles is 17½ per cent when imported from countries eligible for most favoured nation tariff rates, but free when imported from British countries. Most parts may also be imported free from British countries, although little use has been made of this provision. When parts are imported from M.F.N. countries they are subject to duties ranging from 17½ per cent to 25 per cent; but many of these parts may nevertheless be imported duty free, even from M.F.N. countries, if they are not made in Canada and if the Canadian manufacturer uses them in producing vehicles that attain specified levels of commonwealth content.

Professor Bladen proposes that we should build upon, but substantially develop and

modify, this system. The essential features of his proposals in the tariff field are as follows. A tariff of 10 per cent should be imposed against imports of both parts and vehicles from British sources, while present tariff rates against vehicles and parts from M.F.N. countries, ranging from 17½ per cent to 25 per cent, would remain in effect. However, a manufacturer could, under this system, "earn" free entry not only of parts but also of vehicles by achieving or arranging a sufficiently high volume of production in Canada; this production, which could be of completed vehicles or of parts, might be sold in Canada or abroad. For example, exports of particular parts or vehicles from Canada to other countries would earn, for a manufacturer, free entry for other parts or vehicles. Thus, it is argued, the Canadian industry would be more effectively integrated with industry abroad, and the economies of longer runs and greater output would be available here. The objectives would be higher production and more jobs in the Canadian automotive industry, combined with lower prices for Canadian consumers. These goals involve the general expansion, not restriction, of trade in motor vehicles and parts.

The government warmly approves these objectives, and it is grateful to Professor Bladen for the constructive and imaginative suggestions that are embodied in his report. Nevertheless, his recommendations relating to tariffs are complex and sweeping, and would require extensive readjustments in the industry. It is essential that those concerned, both management and unions, should have an opportunity to assess not merely the objectives but the desirability and practicability of the means by which these objectives are to be obtained. Accordingly the government, in releasing this report tonight, urges careful study of the tariff proposals by all those Canadian groups concerned: the vehicle manufacturers, the parts manufacturers, the labour unions, the municipalities, others who gave evidence before the Bladen commission, and the general public.

If, when the views of such groups have been received and analysed, it was decided to take action in the field of tariffs along the lines of the Bladen report, or along some similar lines, the government would fully respect Canada's commercial obligations and would thus protect Canada's trading interests. The government is fully aware of its various

obligations under the GATT, including the undertakings most recently given to the United Kingdom at the time of the commonwealth trade and economic conference in 1958 to bind free entry for these items under the GATT. However, as I have already indicated, the consultations or renegotiations with governments abroad would not be undertaken unless and until the government had reached decisions to proceed in the national interest, taking into account the views of interested parties in Canada.

I proceed now to the recommendation that relates to valuation for purposes of the sales tax. According to the present law, sales tax on imported vehicles is levied on the price in the country of export plus Canadian tariff, if any. On the other hand, on vehicles of domestic manufacture it is levied on the price paid by dealers. As a result of his studies Professor Bladen has concluded that this system discriminates in favour of imported vehicles. In effect he recommends that imported vehicles should be valued on the basis of the selling price to the dealer. Along with the tariff recommendations, the government proposes to give careful study to this recommendation which touches upon a basic principle of the Excise Tax Act.

Professor Bladen's report contains a secondary and much less important recommendation which also relates to valuation. It is proposed that a "notional" valuation should be established, for tax purposes, as if there were a wholesale intermediary between the manufacturer and retailer. This recommendation also will be carefully studied.

Finally I come to the recommendation of far-reaching importance relating to the excise tax on passenger cars. This tax, which is now 7½ per cent, constitutes according to Professor Bladen, a serious drag on sales of automobiles in Canada. He anticipates that the abolition of this tax will increase sales of automobiles substantially, and enlarge employment and production in the Canadian industry. Accordingly he recommends that this tax be abolished.

Mr. Martin (Essex East): Hear, hear. We have been pushing this for years.

Mr. Fleming (Eglinton): I am glad to announce that the government has decided to implement this recommendation. This tax will be repealed effective midnight tonight.

Some hon. Members: Hear, hear.

Mr. Pickersgill: At last.

Mr. Fleming (Eglinton): A refund of the 7½ per cent excise tax will be given to authorized dealers and distributors in respect of tax already paid on stocks of new cars on hand.

Mr. Martin (Essex East): A victory for the opposition.

Mr. Fleming (Eglinton): Mr. Speaker, I seem to hear a voice that says, "A victory for the opposition".

Mr. Martin (Essex East): Hear, hear.

Mr. Fleming (Eglinton): I recognize a voice which belonged to a former government that raised this tax, not lowered it.

Mr. Martin (Essex East): The former government cut it 15 per cent.

Mr. Fleming (Eglinton): This will relieve them of any loss resulting from the tax decrease. Dealers will apply for the refund through the automobile manufacturer. I expect, of course, that automobile producers and dealers will pass on to the consumers this tax saving in full.

After taking into account the increase in production which is expected to result, I estimate that the elimination of the 7½ per cent excise tax will result in a net loss in revenue for a full year in the order of $66 million. For the current fiscal year the loss in revenue, including refunds to dealers, will be about $55 million.

THE 1961-62 BALANCE OF WAYS AND MEANS

I return now to a reassessment of our budgetary prospects for the current year in the light of the fiscal proposals and economic policies which I have put before the house.

In the opening sections of my speech this evening I said that in the absence of any changes in the current economic outlook or of any additional stimulus we might anticipate this year an increase of about 3 per cent in our levels of economic activity.

As a result of the policy statements and legislative proposals I have now made I would expect a significant improvement in our economic prospects. It is difficult, however, to be precise in forecasting the exact degree or timing of this acceleration, since it depends to a considerable extent on the co-operation and vigour of business and labour and of the financial markets and investment institutions.

To the extent that our expansion is accelerated there will be an increase in revenues, although, as I said earlier, the time lag in revenue receipts means that a considerable amount of the benefits of economic acceleration will not reach the treasury until after the end of this fiscal year. There will also be some reductions in expenditures as, for example, in unemployment assistance and unemployment insurance expenditures, and perhaps in the deficits of the C.N.R. and other crown companies.

As the expansion of output, employment and incomes accelerates, taxation revenues will in due course increase still more rapidly. On the basis of the present situation and anticipated trends it is not unreasonable to expect that the current flows of revenue and expenditures will be approaching a balance by the end of 1962. Indeed, as our economy reaches high levels of employment, it is essential that the budget should achieve a balance, and that provision should be made for an orderly retirement of debt.

I estimate that the effect of the income tax changes proposed, not including the reduction in personal and corporation income taxes which are part of the proposed fiscal arrangements with the provinces, will be about $35 million in a full year and $10 million in 1961-62. The effect of the proposed changes in sales and excise taxes will be $66 million in a full year and $55 million in 1961-62. The total tax reductions therefore will be about $100 million in a full year and $65 million in this fiscal year. As I have already indicated, the other federal tax reductions effective January 1, 1962 will amount to $300 million per annum.

With the stimulus imparted by these budget proposals to the levels of economic activity I would expect a general rise in our tax revenues between now and next March 31 to offset the particular tax reductions I have proposed. Assuming some consequential reductions in expenditures I would anticipate a budgetary deficit of the order of $650 million. May I remind hon. members that in as large and as complex an operation as our national government any forecast of revenues or expenditures is inevitably subject to variations. One per cent of our revenues or expenditures is approximately $60 million. Hence it would be more realistic to say that our prospective deficit is in the $600 million to $700 million range. I estimate that our non-budgetary cash

requirements, excluding the exchange fund, will be about $330 million. Thus our over-all cash requirements will be of the order of $1,000 million.

For the record, Mr. Speaker, may I have the consent of the house to insert here two tables indicating our revenues, expenditures and cash requirements for the past year and for the current year.

TABLE II

Budgetary Revenues and Expenditures
(in millions of dollars)

	1960-61 (Preliminary)	1961-62 (Estimate)
Revenues		
Income taxes		
Personal	1,711	1,815
Corporate	1,277	1,200
Non-resident	88	115
Estate taxes	85	90
Customs duties	499	500
Sales taxes	721	785
All other taxes	635	645
Total taxes	5,016	5,150
Non-tax revenues	600	615
Total revenues	5,616	5,765
Expenditures	5,961	6,415
Deficit	345	650

TABLE III

Non-Budgetary Transactions and Net Cash Requirements
(in millions of dollars)

	1960-61 (Preliminary)	1961-62 (Estimate)
Net Receipts		
Annuity, insurance and pension accounts	254	275
Other	94	—20
Total	348	255
Net Loans, Investments and Advances		
C.N.R.	—116	110
Housing	192	240
Unemployment insurance	67	170
Farm credit	40	50
Exchange fund	64	—
Other	50	15
Total	297	585
Net non-budgetary transactions	+51	—330
Budgetary deficit	345	650
Net cash requirements	294	980

[Mr. Fleming (Eglinton).]

RELATIONS WITH THE BANK OF CANADA

It is necessary, in the light of recent events, that I say something tonight about relations between the government and the Bank of Canada. What I have to say relates in part to the past and in part to the future.

Let me begin with the past. On June 14, when I explained to the house the reasons why the government had been compelled to ask for the resignation of the governor of the bank, I said that Mr. Coyne's continuation in office "would stand in the way of the implementation of a comprehensive, sound and responsible economic program designed to raise the levels of employment and production in Canada". Such a program is contained in the budget that I have presented tonight.

No doubt there are some proposals in this budget with which Mr. Coyne may find it possible to agree. It is in the basic elements that the differences lie. This budget is built, as hon. members will have observed, on four foundation stones.

Mr. Pickersgill: Rolling stones.

Mr. Fleming (Eglinton): The hon. member for Bonavista-Twillingate had better look out that they do not roll over him.

Each sustains an element of economic policy which is central and indispensable. Yet not one of the four is compatible with statements, many times reiterated in various and sometimes extreme forms, by Mr. Coyne.

First, the government believes that Canada is, and for her prosperity must remain, a law-abiding member of the international financial and commercial community. The financial and commercial proposals that I am laying before the house tonight accord not only with Canadian interests, but also with Canadian international obligations. Mr. Coyne's speeches, on the other hand, exude ultra-protectionism and isolationism. The purposes and policies which they represent could not be carried out within the framework of the international institutions of which Canada is and must be a member. When he speaks of "living within our means" he really invites us to "live unto ourselves", in a private restrictionist world of our own. As a member of the government of one of the great trading nations of the world, I categorically reject any such invitation; the policies involved would be as damaging to our domestic prosperity as they would be to our international influence.

Mr. Pickersgill: Poor old R.B.

Mr. Fleming (Eglinton): Poor old Bonavista-Twillingate.

Second, the government believes that flexibility in our structure of interest rates can often be, and is indeed in times like the present, of importance to the pace of economic expansion, and the level of employment, particularly through its influence on the balance of international payments; and the government also believes that the Bank of Canada has an important role to play in this connection. Mr. Coyne, on the other hand, in his last annual report and in many other statements, argues that interest rates have little influence on economic development and that the central bank has, in any case, little influence on interest rates and the balance of payments.

Third, the government believes that the exchange rate, like rates of interest, should be flexible and should move with the times; while a premium over the U.S. dollar may well have been appropriate and helpful to Canada's economic position some years ago, today a discount will be appropriate and helpful to agriculture and fisheries, to primary and secondary industry, to our exporters, our tourist industry, and to the community at large. Further, the government believes that monetary policy and interest rates in Canada have an important role to play in relation to a flexible exchange rate. Mr. Coyne, on the other hand, in frequent speeches and most recently before the Senate committee on manpower and employment on April 26, reserved his most extreme strictures for proposals for "depreciation of the international exchange value of the Canadian dollar" and for use of monetary policy in this connection.

Fourth, the government believes that, in times like the present, a substantial budget deficit can promote economic expansion, with more jobs and better living standards for many thousands of Canadians; and such a fiscal policy will be the more effective if it is accompanied by appropriate flexibility of interest rates and exchange rates. Mr. Coyne, on the other hand, has been preaching all across the country a far more austere and rigid doctrine. Government fiscal policies in general, and government deficits in particular, have received more of his broadside attacks than any other element in our economy.

Mr. Coyne has publicly and repeatedly rejected all the four foundation stones of this budget. Moreover, at both my meetings with the governor on March 18 and again on May 30, after I had told him of the harm done by his public speeches, he asserted firmly and emphatically that he took back nothing he had said in those speeches, that he had been right in what he had said, and withdrew nothing. How then could the government invite him to consider and support it? How could the government ask him to co-operate in its implementation? I can think of nothing more cynical or more insulting than to approach the governor of the Bank of Canada with a request that he should approve and implement policies with which he is known to be in fundamental disagreement. Accordingly, rather than allow Mr. Coyne to continue to stand in the way of constructive and expansionist measures of a kind which he had publicly opposed, the government asked him to resign. This budget and Mr. Coyne were simply not compatible.

Let it not be thought that this incompatibility was just another instance of the age-old battle which, so the historians tell us, has from time to time been waged between the bankers and the politicians, with the bankers attempting to "crucify mankind upon a cross of gold" and the politicians seeking to remedy every economic malady with a dose of inflation. It is nothing of the kind. Long before the government decided that it would have to ask for Mr. Coyne's resignation, leading Canadian bankers, were criticizing the policies and activities of the governor of the bank. These criticisms by presidents or general managers of the following chartered banks were made in prepared public speeches at their annual meetings last winter or subsequently: the Canadian Bank of Commerce, the Imperial Bank, the Bank of Montreal, the Bank of Nova Scotia, the Royal Bank of Canada, and the Toronto-Dominion Bank. The policies and activities about which the senior officers of these banks expressed their concern related to the level of Canadian interest rates, the level of the Canadian exchange rate, or to the manner in which central banking operations had been carried on. How could the government ask Mr. Coyne to share in the implementation of programs and policies in fields where he had already provoked an unprecedented round of protests from so many of our leading financial institutions?

When speaking in the house on June 14 I indicated that Mr. Coyne did not command the confidence of his board of directors or of the government. It is also clear that he has not been able to enlist the confidence of the financial community. This has emerged from their public statements. It has also emerged from their inability to interpret his activities

in the purely monetary sphere. To my deep regret he has been unable to achieve any real meeting of minds with those with whom he should be in constant and confident contact. In these circumstances it became impossible for the government to rely on him to give the type of leadership which is expected at all times from the governor of a central bank and which will be particularly needed in the months ahead.

I am quite aware that without consulting the governor I am tonight proposing policies, including those affecting interest rates, which extend into the area of influence and authority of the central bank. It was necessary to do so on this occasion only because Mr. Coyne refused to make way for a successor with whom, had he been appointed in time, I could and would have consulted. I make this explanation tonight, not only for the benefit of the many people, at home and abroad, who are naturally and properly concerned about the status and stature of our central bank, but also for the benefit of those who are naturally and properly concerned about the status and stature of the new governor.

It is the intention of the government that the position and prestige of the Bank of Canada should be restored. Let it be recalled that the first governor, who graced that office for 20 years, was appointed by a government headed by the late Right Hon. R. B. Bennett. It is the intention of this government to restore the active and intimate cooperation between the bank and the government, the bank and the public, which was maintained so effectively and continuously in earlier years.

It will remain the duty of successive governments and sucessive ministers of finance to protect the bank and its governor from the transient and irresponsible pressures to which those who manage our money supply will, in the nature of things, be subjected from time to time. But this does not and cannot mean that any government can continue to stand idly by when a governor is espousing policies which, in its best judgment, are not in conformity with the public interest and when he is also stating opinions that are in fundamental conflict with government policies outside the field of central banking. In such a situation it would always be the duty of the government to ask the governor to resign and, in the almost incredible event that he should refuse, to submit the matter to the ultimate high court of parliament.

CONCLUSION

Mr. Speaker, I said at the outset that in more than usual measure this is an economic budget. In that respect it is a logical sequel to the supplementary budget of last December. It proposes through an appropriate blending of fiscal, financial and commercial policies to impart an impetus to the economy, to enlarge production, to employ unused productive capacity, to stimulate growth, to increase trade, and thus to expand employment opportunities for our people. It seeks to raise the levels of savings and investment by Canadians and to make better use of Canadian capital in the development of our resources. It aims to achieve a more dynamic pace of growth and a balanced development for all regions of our country and all sectors of our economy. It offers credit, incentives and research aid to assist industry to gird itself to meet the challenge of new and vigorous competition. It brings a flexible program of action to bear upon the needs of this time and to serve the nation's long term interest. It challenges all people to hard work and self-discipline. It appeals for co-operation between business and labour.

It contemplates a large deficit and proposes to use that deficit as a means of stimulating the economy. It offers, notwithstanding, a reduction of $100 million in taxation where the reduction is most needed and can be fruitful in stimulating productive effort. It reminds the country that three years ago we faced the prospect of an even larger deficit during a recession when inflation also threatened, and that the country achieved recovery in that year.

Monsieur l'Orateur, le Canada mûrit économiquement et politiquement. Si sa croissance a connu un ralentissement et un temps d'arrêt au cours de l'année qui vient de s'écouler, il y a tout de même eu croissance. De cette constatation, le Canada peut tirer un renouveau de confiance, un supplément de force et de compétence pour accomplir les tâches et enlever les obstacles qui l'attendent. Les labeurs et les épreuves de ces derniers temps vont se muer en de nouveaux triomphes.

Canada becomes an ever more mature nation, both politically and economically. Her growth in this past year has experienced a slackening and a pause, but there has been growth. From that experience she can draw renewed confidence, strength and fitness for the tasks and challenges ahead. These recent toils and trials Canada will transform to new triumphs.

RESOLUTIONS

INCOME TAX ACT

Resolved that it is expedient to introduce a measure to amend the Income Tax Act and to provide among other things:

1. That for the 1961 and subsequent taxation years the maximum annual rate at which a taxpayer carrying on business in Canada may deduct expenditures of a capital nature made by him in Canada in respect of scientific research shall be increased from 33⅓ per cent to 100 per cent.

2. That for the 1961 and subsequent taxation years the requirement that the amount deductible on account of expenditures in respect of scientific research shall not exceed 5 per cent of the taxable income of the taxpayer in the preceding year unless the research program has been approved be removed with respect to expenditures which are not of a capital nature.

3. That for the 1961 and subsequent taxation years a non-profit corporation constituted exclusively for promoting or carrying on scientific research in Canada that expends all amounts received by it on such research shall be exempt from tax and amounts contributed to it shall be deductible as current expenditures in respect of scientific research.

4. That for the 1961 and subsequent taxation years a corporation constituted exclusively for charitable purposes be permitted to include donations to Her Majesty in right of Canada, or a province or a Canadian municipality, in the amount such a corporation must expend each year in order to qualify for exemption from income tax.

5. That for the 1961 and subsequent taxation years the present maximum limits on the amount deductible in computing taxable income on account of medical expenses be repealed.

6. That amounts paid on and after January 1, 1961 for or in respect of a laryngeal speaking aid be included in the medical expenses that are deductible in computing taxable income.

7. That for the 1961 and subsequent taxation years an amount paid by an individual in the year on account of legal expenses incurred to collect salary or wages owing to him by an employer be deductible in computing income.

8. That for the 1958 and subsequent taxation years an amount not exceeding $300 received by an individual in the year from a municipality as an allowance for expenses incurred while carrying out the duties of a volunteer fireman be not included in computing income.

9. That provision be made in respect of a new class of profit sharing plans under which

(a) amounts allocated by the trustee shall not be included in the income of an individual who is a beneficiary under the plan until the year in which they are received,

(b) no tax shall be payable by the trustee under the plan on the taxable income of the trust, and

(c) an employer may deduct in computing income for the year an amount which when added to his contribution, if any, under a registered pension fund or plan does not exceed $1500 per employee.

10. That after June 20, 1961 any payment by a resident of Canada which is

(a) a lump sum payment out of or pursuant to a superannuation or pension fund or plan,

(b) a payment upon retirement of an employee in recognition of long service,

(c) a payment to an employee or former employee in respect of loss of office or employment,

(d) a payment under a profit sharing plan (to the extent that the amount thereof would be included in computing the payee's income for the year if the payee were a resident of Canada),

made to an individual who is a non-resident of Canada and who during the five years preceding the year of payment was a resident of, or employed in Canada, for a period or periods the aggregate of which was 36 months or more, shall be deemed to be income for the year from duties performed by him in Canada but nothing in this paragraph shall apply to a payment which can be established to be one of a series of payments to be continued at regular intervals during the life of the recipient.

11. That for the 1961 and subsequent taxation years where an individual residing outside of Canada is deemed to be resident in Canada because he is an officer or servant of Canada or a province his wife residing with him (if she was previously resident in Canada) or his dependent child shall also be deemed to be resident in Canada.

12. That for the 1962 and subsequent taxation years a corporation incorporated in Canada that is carrying on business in Canada shall be deemed to be resident in Canada.

13. That for the 1961 and subsequent taxation years the deduction from income allowed to a corporation whose principal business is

mining or producing petroleum or natural gas or processing mineral ores or metals recovered from mineral ores, in respect of expenses incurred in searching for minerals in Canada or exploring or drilling for petroleum or natural gas in Canada be extended to a corporation whose principal business is fabricating metals.

14. That with respect to the taxation years of a personal corporation commencing on or after September 1, 1961 the manner of taxing shareholders of a personal corporation and the definition of a personal corporation be revised and in particular

(a) that carrying on active business shall not disqualify a corporation from being a personal corporation unless the income from carrying on a business exceeds 50 per cent of the income of the corporation,

(b) that a personal corporation may include a corporation controlled by any group of individuals resident in Canada all the members of which are related persons,

(c) that a corporation controlled by one or more trusts or estates shall be a personal corporation if it otherwise qualifies,

(d) that the income of a personal corporation for a year shall be deemed to have been distributed to its shareholders in proportion to their shareholdings instead of in proportion to amounts transferred to the corporation,

(e) that where a taxpayer has transferred property to a personal corporation and he does not receive by way of dividends on shares in the corporation, or by way of interest on amounts owing to him by the corporation, an amount at least equal to 5 per cent per annum of the value of the property or unpaid balance, any amount deemed to have been received as a dividend by his spouse or child shall be deemed to have been received as income from property transferred from the taxpayer to the extent of the difference between the said 5 per cent and the amount he actually received.

(f) that losses incurred in the previous five years that were not previously deductible shall be deductible in computing the amount of income of a personal corporation that is deemed to have been distributed to its shareholders in a year, and

(g) that where an amount is included in the income of a personal corporation as a recapture of capital cost allowance by virtue of section 20 of the act a shareholder may elect to pay a special reduced tax on his portion of the recaptured capital cost allowance in the same manner as if he had received the recaptured amount directly.

[Mr. Fleming (Eglinton).]

15. That rates of income tax be reduced and related changes made in order to implement certain fiscal arrangements with the provinces commencing April 1, 1962 and that the act be amended as may be necessary to implement an offer of the government of Canada to enter into agreements for the collection of income taxes imposed by the provinces and in particular

(a) that the income tax otherwise payable by an individual in respect of income earned in a province of Canada be reduced by

(i) 16% for the 1962 taxation year

(ii) 17% for the 1963 taxation year

(iii) 18% for the 1964 taxation year

(iv) 19% for the 1965 taxation year

(v) 20% for the 1966 taxation year,

(b) that the rate of tax on the taxable income earned in a province of Canada by a corporation other than a non-resident-owned investment corporation or a corporation specified in schedule D to the Financial Administration Act that is an agent of Her Majesty be reduced by 9 percentage points in respect of taxable income earned after December 31, 1961 and before January 1, 1967.

EXCISE TAX ACT

Resolved that it is expedient to introduce a measure to amend the Excise Tax Act and to provide among other things:

1. That the excise tax of seven and one-half per cent on automobiles adapted or adaptable for passenger use be repealed.

2. That the excise tax of fifteen per cent on radio broadcasting receiving sets be changed to two dollars or fifteen per cent per set, whichever is the greater.

3. That the excise tax of fifteen per cent on tubes for phonographs, record-playing devices, radio broadcasting receiving sets, television receiving sets or any combination of the foregoing be changed to ten cents or fifteen per cent per tube, whichever is the greater, and restricted to tubes the sale price of which does not exceed five dollars per tube, but without affecting picture tubes for television receiving sets the excise tax on which shall continue to be fifteen per cent.

4. That the excise tax of ten per cent on devices commonly or commercially known

as lighters be changed to ten cents or 10 per cent per lighter, whichever is the greater.

5. That laminated timber for bridges and materials used in the manufacture thereof be exempt from sales tax when sold or imported by municipalities for their own use and not for resale.

6. That additives for fuel oil for heating and materials used in the manufacture thereof be exempt from sales tax.

7. That blowers used in warm air systems for heating buildings and materials used in the manufacture thereof be exempt from sales tax.

8. That thermostats for use with permanent heating systems for the heating of buildings and materials used in the manufacture thereof be exempt from sales tax.

9. That propane bulk tanks for use with furnaces for the heating of buildings and directly connected to such furnaces and materials used in the manufacture thereof be exempt from sales tax.

10. That the exemption from sales tax for "Ducts for warm air systems for heating buildings, but not including materials used in their manufacture" be changed to read "Ducts for warm air and ventilation systems for buildings, but not including materials used in their manufacture".

11. That precast concrete piles and materials used in the manufacture thereof be exempt from sales tax.

12. That the exemption for "doors" and the exemption for "Door and window screens", now appearing under the heading "Building Materials" in schedule III, be combined and changed to read "Doors for buildings and door and window screens", and the exemption for "Prepared roofings", now appearing under the heading of "Building Materials" in schedule III, be changed to read "Prepared roofings for buildings".

13. That prepared dry concrete mixes and materials used in the manufacture thereof be exempt from sales tax.

14. That the exemption from sales tax for feeds "for fur-bearing animals whose pelts have commercial value" be amended by deleting the words "whose pelts have commercial value".

15. That the exemption from sales tax for "Preparations, chemicals or poisons for pest control purposes in agriculture or horticulture, and materials for use exclusively in the manufacture thereof", be changed to read "Preparations, chemicals or poisons (other than pharmaceuticals) for pest control purposes in agriculture or horticulture, and materials for use exclusively in the manufacture thereof".

16. That self-propelled, self-unloading forage wagons for off-highway use for farm purposes and materials used in the manufacture thereof be exempt from sales tax.

17. That the exemption from sales tax for milk and cream bottles and milk and cream cans be extended to include milk and cream plastic bags.

18. That seismic shot-hole casing and materials used in the manufacture thereof be exempt from sales tax.

19. That the provisions of part II of the said act imposing an export duty on exports of electrical power be amended so that every person who exports electrical power from Canada by a line or wire or other conductor shall pay the duty on all electrical power so exported by him during any period specified pursuant to section 9 of the said act, less any such electrical power re-imported by him, or imported by him as a result of an international equichange transfer of electrical power on the same or connected circuits, during that period.

20. That the tax of 10 per cent on net premiums in respect of insurance on property in Canada paid or payable by Canadian residents to an insurer not authorized under the laws of Canada or any province to transact the business of insurance, be extended to apply to net premiums in respect of all classes of insurance except life insurance, personal accident insurance, sickness insurance, insurance against marine risks and insurance against nuclear risks to the extent that such insurance against nuclear risks is not, in the opinion of the superintendent of insurance, available within Canada.

21. That any enactment founded on paragraphs 1 to 18 of this resolution be deemed to have come into force on June 21, 1961, that any enactment founded on paragraph 19 of this resolution be applicable in respect of electrical power exported after August 31, 1961, and that any enactment founded on paragraph 20 of this resolution be applicable in respect of contracts of insurance effected or renewed after July 15, 1961.

EXCISE ACT

Resolved that it is expedient to introduce a measure to amend the Excise Act to provide:

1. That the maximum weight for cigarettes subject to the excise duty of four dollars per thousand cigarettes, be increased from not more than two and one-half pounds per thousand cigarettes to not more than three pounds per thousand cigarettes.

2. That any enactment founded upon this resolution shall come into force on the 1st day of January, 1962.

THE CUSTOMS TARIFF

1. Resolved, that it is expedient to introduce a measure to amend the *Customs Tariff* to provide that the provisions of subsection (2) of section 3 and subsections (1) and (2) of section 5 apply to goods entering Canada through a port of any kind rather than being limited to goods entering through a sea, lake or river port.

[Mr. Fleming (Eglinton).]

2. Resolved,

that Schedule A to the *Customs Tariff* be amended by striking out tariff items 521(2), 522(4), 528, 529, 529*a*, 534(*a*), 534(*b*), 538*b*, 538*e*, 538*f*, 538*g*(1), 538*g*(2-7) 538*h*, 538*j*, 538*k*, 538*m*, 538*n*, 538*p*, 541*b*, 542*a*, 542*b*, 545, 554*d*, 554*e*, 554*f*, 555, 556, 556*a*, 556*b*, 562*a*, 563*a*, 568, 568*a*(*i*), 568*a*(*ii*), 574, 574*a*, 574*b*, 619, 685 and 810, and the enumerations of goods and the rates of duty set opposite each of these items, and by inserting therein the following items, enumerations of goods and rates of duty:

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
522	Woven fabrics, wholly of cotton:						
	(4) Composed of yarns of counts of one hundred or more, including all such fabrics in which the average of the count of warp and weft yarns is one hundred or more, *not including labels or name-tapes*..........	Free	25 p.c.	35 p.c.	Free	25 p.c.	35 p.c.
528	White cotton *bobbinet*, plain, in the web................	Free	12½ p.c.	25 p.c.	Free	12½ p.c.	25 p.c.
532f	Woven billiard cloth composed wholly or in part of wool or hair; melton cloth for use in the manufacture of tennis balls..	Free	20 p.c.	40 p.c.	Free	20 p.c.	40 p.c.
	and, per pound		25 cts.	35 cts.		25 cts.	35 cts.
					Free	27½ p.c. and 20 cts. per pound	40 p.c. and 35 cts. per pound
532g	Fabrics, coated or impregnated, composed wholly or in part of yarns of wool or hair, but not containing silk nor synthetic textile fibres or filaments, n.o.p........	25 p.c.	27½ p.c.	55 p.c.	25 p.c.	27½ p.c.	40 p.c. and 35 cts. per pound
[illegible]	Clothing, wearing apparel and articles made from woven fabrics, and all textile manufactures, wholly or partially manufactured, composed wholly or in part of wool or hair, *when the textile component thereof is not more than fifty per cent, by weight, of silk*, n.o.p.............	25 p.c.	27½ p.c.	55 p.c.	25 p.c.	27½ p.c.	40 p.c. and 35 cts. per pound
					Various	Various	Various
533b	Felt, pressed, in the web, *wholly or in part of wool*, not consisting of or in combination with any woven, knitted or other fabric or material..................	12½ p.c.	17½ p.c.	25 p.c.	12½ p.c.	17½ p.c.	25 p.c.
	and, per pound		12½ cts.	20 cts.		12½ cts.	20 cts.
					Free	10 p.c.	25 p.c.

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
534a	*(1) Household blankets of any material except wholly of cotton*	20 p.c.	20 p.c.	40 p.c.	20 p.c.	25 p.c.	35 p.c.
	and, per pound	5 cts.	15 cts.	30 cts.	5 cts.	20 cts.	30 cts.
	(2) Automobile rugs, steamer rugs, travel rugs and similar articles of any material except wholly of cotton.	20 p.c.	20 p.c.	40 p.c.	25 p.c.	27½ p.c.	40 p.c.
	and, per pound	5 cts.	15 cts.	30 cts.			35 cts.
	The total duty leviable shall not be in excess of		37½ p.c.				
534b	Press blankets or blanketing for use with printing presses and stereotypers' and typecasters' blankets or blanketing, of a class or kind not made in Canada	Free	5 p.c.	10 p.c.	Free	5 p.c.	10 p.c.
534c	Blankets, blanketing and lapping for use by textile manufacturers *on machines used in the manufacture of textiles*	Free	Free	Free	Free	Free	Free
541*b*	Woven fabrics, wholly of jute, not exceeding twelve inches in width	15 p.c.	22½ p.c.	30 p.c.	15 p.c.	22½ p.c.	25 p.c.
542*a*	Woven fabrics not exceeding twelve inches in width, wholly or in part of vegetable fibres, n.o.p., not to contain silk, synthetic textile fibres or filaments, nor wool	20 p.c.	25 p.c.	40 p.c.	20 p.c.	25 p.c.	35 p.c.
562*a*	Woven fabrics, wholly or in part of man-made fibres or filaments or of glass fibres or filaments, not containing wool or hair, not including fabrics more than fifty per cent, by weight, of silk:						
	(1) Exceeding twelve inches in width	22½ p.c.	30 p.c.	45 p.c.	22½ p.c.	30 p.c.	45 p.c.
	and, per pound		20 cts.	40 cts.		20 cts.	40 cts.
	(2) Not exceeding twelve inches in width	25 p.c.	27½ p.c.	55 p.c.	22½ p.c.	25 p.c.	35 p.c.
					Various	Various	Various
	Woven fabrics containing five per cent or less, by weight, of man-made fibres or filaments or of glass fibres or filaments shall not be dutiable under this item but shall be dutiable as though composed wholly of the remaining constituents.						
562j	*Bolting cloth for sifting flour in flour mills*	Free	Free	45 p.c.	12½ p.c. 22½ p.c.	22½ p.c. 30 p.c. and 20 cts. per pound	45 p.c. 45 p.c. and 40 cts. per pound

565a	Wick, braided or not, with or without core, processed or not, for use in the manufacture of wax candles or tapers or for use in oil burning sanctuary lamps	Free	Free	Free	Free	Free	Free
565b	Braids of all kinds, n.o.p.	20 p.c.	25 p.c.	40 p.c.	20 p.c. 17½ p.c. Various	25 p.c. 22½ p.c. Various	35 p.c. 35 p.c. Various
565c	Linen fire-hose, lined or unlined, *with or without attached couplings*	15 p.c.	30 p.c.	35 p.c.	15 p.c.	30 p.c.	35 p.c.
565d	*Seamless woven textile jackets, in tubular form, for use in the manufacture of fire-hose; fire-hose made from such jackets, with or without attached couplings:*						
	(1) The textile component of which is wholly cotton	20 p.c.	22½ p.c.	40 p.c.	20 p.c. 17½ p.c.	25 p.c. 20 p.c.	35 p.c. 35 p.c.
	(2) The textile component of which is other than wholly cotton	22½ p.c.	27½ p.c.	45 p.c.	25 p.c.	25 p.c.	35 p.c. and 4 cts. per pound
					20 p.c. 22½ p.c.	27½ p.c. 30 p.c. and 20 cts. per pound	50 p.c. 45 p.c. and 40 cts. per pound
566a	Fabrics, containing figured designs, *woven in widths not exceeding twelve inches, lace*, embroideries, emblems and medallions, for use in the manufacture of church vestments	10 p.c.	10 p.c.	20 p.c.	10 p.c.	10 p.c.	20 p.c.
566b	Lace and netting, *other than woven, bobbinet, embroideries, n.o.p.:*						
	(1) Wholly of vegetable fibres	10 p.c.	12½ p.c.	25 p.c.	Various	Various	Various
	(2) Wholly or in part of other textile fibres or filaments	17½ p.c.	22½ p.c.	35 p.c.	17½ p.c.	22½ p.c.	35 p.c.
568	*(1)* Knitted garments, *knitted fabrics* and knitted goods, n.o.p.	20 p.c.	35 p.c.	55 p.c.	20 p.c.	35 p.c.	45 p.c. and 30 cts. per pound
	(2) Knitted garments, women's and girls', wholly or in chief part by weight of wool or hair, valued at not less than [illegible] per pound	20 p.c.	32½ p.c.	55 p.c.	20 p.c.	35 p.c.	45 p.c. and 30 cts. per pound
568a	Socks and stockings:						
	(1) Wholly or in chief part, by weight, of wool	20 p.c.	27½ p.c.	40 p.c.	20 p.c.	27½ p.c.	35 p.c.
	and, per dozen pairs	30 cts.	$1.20	$1.50	30 cts.	$1.20	$1.50
	(2) N.o.p.	17½ p.c.	17½ p.c.	35 p.c.	17½ p.c.	17½ p.c.	35 p.c.
	and, per dozen pairs	...	75 cts.	$1.50	...	75 cts.	$1.50
619	Rubber or gutta percha hose; rubber mats or matting and rubber packing	17½ p.c.	20 p.c.	35 p.c.	17½ p.c.	20 p.c.	35 p.c.

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
685	Pantagraphs and parts thereof, including diamond points, and engraving mills, for engraving copper rollers used in printing textiles and wallpapers.......	Free	Free	Free	Free	Free	Free

3. Resolved,

that Schedule A to the *Customs Tariff* be amended by striking out tariff items 9, 9*a*, 9*b*, 9*c*, 9*e*, 152(*e*), 187*c*, 197*a*, 198*a*, 199*m*, 202*a*, 409*c*(3), 425, 425*a*, 425*b*, 427*e*, 431, 438*h*, 445*o*(*i*), 445*o*(*ii*), 445*o*(*iii*) and 658, and the enumerations of goods and the rates of duty set opposite each of these items, and by inserting therein the following items, enumerations of goods and rates of duty:

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Prior: British Preferential Tariff	Prior: Most-Favoured-Nation Tariff	Prior: General Tariff
9a	*Live poultry, n.o.p*..........................*per pound*	2 cts.	2 cts.	5 cts.	12½ p.c.	12½ p.c.	20 p.c.
9b	Quails, partridges, and squabs, *live or dead*, n.o.p.......	10 p.c.	12½ p.c.	30 p.c.	10 p.c.	20 p.c.	30 p.c.
9c	*Turkey poults, baby ducklings and baby goslings*...........	12½ p.c.	12½ p.c.	20 p.c.	12½ p.c.	12½ p.c.	20 p.c.
9e	*Dead poultry, n.o.p*...................................	12½ p.c.	12½ p.c.	20 p.c.	12½ p.c.	12½ p.c.	20 p.c.
9f	*Eviscerated poultry, whether or not divided into portions and whether or not cooked*................................ *but not less than, per pound* *or more than, per pound*	12½ p.c. 5 cts. 10 cts.	12½ p.c. 5 cts. 10 cts.	35 p.c.	12½ p.c. 12½ p.c.	12½ p.c. 12½ p.c. not less than 5¢ per lb. or more than 10¢ per lb.	20 p.c. 20 p.c.
9g	Game, n.o.p...	12½ p.c.	12½ p.c.	20 p.c.	12½ p.c.	12½ p.c.	20 p.c.
9h	Horse meat, tripe and other animal offal, ground or unground, unfit for human consumption; whale meat; feeds consisting wholly or in part of cereals but not including baked biscuits; all the foregoing when for use exclusively in the feeding of fur-bearing animals or in the manufacture of feeds for such purposes......	Free	Free	Free	Free	Free	Free
105k	*Pineapples, mint flavoured, prepared, in air-tight cans or other air-tight containers, the weight of the containers to be included in the weight for duty*................*per pound*	1 ct.	2 cts.	5 cts.	20 p.c.	25 p.c.	35 p.c.
152	Fruit juices and fruit syrups, n.o.p., viz.:— (*e*) Pineapple juice.................................	7½ p.c.	7½ p.c.	25 p.c.	10 p.c.	10 p.c.	25 p.c.

187c	Photographic dry plates........................	10 p.c.	17½ p.c.	30 p.c.	12½ p.c.	20 p.c.	30 p.c.
197a	Super-calendered or machine finish grades of book paper, not coated, when used exclusively in the production of magazines, newspapers and periodicals, printed, published *and* issued *at regular intervals, not less frequently than four times a year*, and bearing dates of *issue*........................	Free	Free	25 p.c.	Free	Free	25 p.c.
197h	*Filter paper for use in the manufacture of vacuum cleaner bags*........................	10 p.c.	10 p.c.	25 p.c.	12½ p.c.	20 p.c.	25 p.c.
198a	Coated papers, when used exclusively in the production of magazines, newspapers and periodicals, printed, published and issued *at regular intervals, not less frequently than four times a year, and bearing dates of issue.*	Free	Free	35 p.c.	Free	Free	35 p.c.
199m	Woven paper fabrics, open mesh, not less than nine feet in width, for use in the manufacture of carpets.......	15 p.c.	20 p.c.	35 p.c.	15 p.c.	22½ p.c.	35 p.c.
202a	Twine or yarn of paper........................	10 p.c.	10 p.c.	35 p.c.	Free	Free	Free
[illegible]	[illegible] Lawn or garden rollers, *n.o.p.*; parts thereof	Free	Free	Free	Free	Free	Free
	(5) Lawn or garden rollers, *non-mechanical*; parts thereof	15 p.c.	15 p.c.	15 p.c.	Free	Free	Free
425a	(1) *Power* lawn mowers, *self-propelled or not*, whether or not containing the power unit........................	15 p.c.	20 p.c.	32½ p.c.	10 p.c.	15 p.c.	32½ p.c.
	(2) *Gang-type lawn mowers designed to be drawn or pushed mechanically; parts thereof*........................	10 p.c.	15 p.c.	32½ p.c.	10 p.c.	15 p.c.	32½ p.c.
	(3) Lawn mowers, *n.o.p.*........................	10 p.c.	22½ p.c.	32½ p.c.	10 p.c.	22½ p.c.	32½ p.c.
425b	(1) Air-cooled internal combustion engines of greater than one and one-half horsepower rating, and parts thereof; parts of power lawn mowers; all the foregoing for use in the manufacture or repair of power lawn mowers........................	5 p.c.	10 p.c.	32½ p.c.	10 p.c.	15 p.c.	32½ p.c.
	(2) *Air-cooled internal combustion engines of not greater than one and one-half horsepower rating, and parts thereof, when for use in the manufacture or repair of power lawn mowers*........................	Free	10 p.c.	30 p.c.	Free	15 p.c.	30 p.c.
427e	Automatic machines for making and packaging cigars and cigarettes, not to include tobacco-preparing machines; [illegible]........................	Free	7½ p.c.	35 p.c.	Free 10 p.c.	10 p.c. 22½ p.c.	35 p.c. 35 p.c.
431	(1) Shovels and spades, of iron or steel, n.o.p., and axes.	10 p.c.	15 p.c.	20 p.c.	10 p.c.	15 p.c.	20 p.c.
	(2) *Hoes, pronged forks, rakes, hand*........................	15 p.c.	15 p.c.	20 p.c.	Free	Free	Free

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
438h	(*1*) Motor cycles *having an engine capacity of 250 c.c. or less, engines* or side cars therefor; parts of the foregoing.....	Free	$17\frac{1}{2}$ p.c.	30 p.c.	Free	$17\frac{1}{2}$ p.c.	30 p.c.
	(*2*) Motor cycles *having an engine capacity of more than 250 c.c., engines* or side cars therefor; parts of the foregoing.	Free	$12\frac{1}{2}$ p.c.	30 p.c.	Free	$17\frac{1}{2}$ p.c.	30 p.c.
445o	(*1*) Acid-free capacitor tissue and paper, plain and gummed; Bias cells and holders; Cones, spiders, spider suspensions, voice coils and voice coil dust covers, separate or assembled; Frames, yokes, brackets, pole-pieces, gaskets and field covers, separate or assembled for use in speakers with mounting diameter not exceeding 6 3/8 inches; Glass dial crystals and scales and metal dials or scales made by the silk-screen process; High frequency circuit switches and essential components thereof; High frequency coil forms and tubing having an outside diameter not exceeding one inch; High frequency iron cores with or without inserts moulded therein; Magnetic structures and parts thereof for permanent magnet speakers; Metal cabinet escutcheons without crystals, plain or finished; Metal cans, extruded, plated or unplated; Motors and gears for automatic tuning; Parts for pickups; Radio frequency ceramics; Raw low loss mica; Sheets and punchings of low loss mica; Tube shields and parts thereof; Vibrators; Vulcanized fibre in sheets, rods, strips or tubing; For use in the manufacture or the repair of the goods enumerated in tariff items 445*d*, 597*a*, and other apparatus using radio tubes, or for use in the manufacture of parts therefor....................................	Free	Free	30 p.c.	Free	Free	30 p.c.

	(2) *Automatic record changers*	7½ p.c.	7½ p.c.	30 p.c.	Free	Free	30 p.c.
	(3) Alloy resistance wire having a diameter of less than .005 inch; Automatic record-centering mechanisms with tone arm, not including motors or turntables; Etched aluminum foil; Metal cabinet escutcheons with crystals, plain or finished; Metal powders; Spring drive motors for record turntables; Textile fabrics, coated with aluminum; When of a class or kind not made in Canada and for use in the manufacture or the repair of the goods enumerated in tariff items 445*d*, 597*a*, and other apparatus using radio tubes, or for use in the manufacture of parts therefor	Free	Free	30 p.c.	Free	Free	30 p.c.
	(4) Materials and parts, not including motors, for use by manufacturers of apparatus using radio tubes, or of parts therefor, in the manufacture, in their own factories, of the goods enumerated in tariff items 445*o*(*1*), 445*o*(*2*) and 445*o*(*3*)	Free	Free	30 p.c.	Free	Free	30 p.c.
463d	*Lenses, shutters, and parts thereof, for use in the manufacture of still and motion picture projectors*	Free	10 p.c.	35 p.c.	2½ p.c. Free	15 p.c. 15 p.c.	30 p.c. 35 p.c.
[illegible]	Motion picture film, of 16 millimetre width and over, *and video tape, not including filmed or video taped television commercials*, when imported by recognized producers of motion picture film *or video tape* having duly equipped laboratories for processing motion picture film *or video tape* in Canada, for the sole purpose of having reproductions made therefrom, and if the original *film or video tape* is re-exported within six months from the date of importation, under such regulations as the Minister may prescribe ....per linear foot	Free	Free	3 cts.	Free 15 p.c.	Free 20 p.c.	3 cts. 30 p.c.
[illegible]	*Filmed or video taped television commercials*	15 p.c.	20 p.c.	30 p.c.	15 p.c. Free	20 p.c. Free	30 p.c. 3 cts. per linear foot
[illegible]	*Video tape, n.o.p.*	15 p.c.	20 p.c.	30 p.c.	15 p.c.	20 p.c.	30 p.c.

4. Resolved,

that Schedule A to the *Customs Tariff* be amended by striking out tariff items, 296*g*, 319, 321, 322, 409*d*, 413*a*, 430*c*, 430*e*, 440*d*, 462*d*, 462*i*, 475*c*, 505*c*, 571*a*(2), 597*d* and 611*a*(1), and the enumerations of goods and the rates of duty set opposite each of these items, and by inserting therein the following items, enumerations of goods and rates of duty:

Tariff Item	—	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
133*a*	*Trout, live, imported by commercial trout farms*..........	Free	Free	25 p.c.	$12\frac{1}{2}$ p.c.	$17\frac{1}{2}$ p.c.	25 p.c.
296*g*	Sodium calcium borate ore for use as a fire retardant..	Free	Free	25 p.c.	Free	Free	25 p.c.
	On and after July 1, *1962*	15 p.c.	20 p.c.	25 p.c.	15 p.c.	20 p.c. (On and after July 1, 1961)	25 p.c.
319	Plate glass, ground and polished on both surfaces, not further processed than cut into rectangles, and *float glass not further processed than cut into rectangles*.......	Free	5 p.c.	15 p.c.	Free	5 p.c.	15 p.c.
321	Sheet glass, plate glass, cast glass, rolled glass and *float glass*, n.o.p..	Free	$7\frac{1}{2}$ p.c.	$17\frac{1}{2}$ p.c.	Free	$7\frac{1}{2}$ p.c.	$17\frac{1}{2}$ p.c.
322	Laminated glass, of sheet glass, plate glass or *float glass, or combinations thereof*:						
	(*1*) Not further processed than cut into rectangles...	5 p.c.	$12\frac{1}{2}$ p.c.	$22\frac{1}{2}$ p.c.	5 p.c.	$12\frac{1}{2}$ p.c.	$22\frac{1}{2}$ p.c.
	(*2*) N.o.p...	$17\frac{1}{2}$ p.c.	25 p.c.	35 p.c.	$17\frac{1}{2}$ p.c.	25 p.c.	35 p.c.
409*d*	Mowing machines, harvesters, either self-binding or without binders, binding attachments, reapers, harvesters in combination with threshing machine separators including the motive power incorporated therein; *cabs* and parts *for* the foregoing.............	Free	Free	Free	Free 10 p.c.	Free $22\frac{1}{2}$ p.c.	Free 35 p.c.
413*a*	Machinery, of a class or kind not manufactured in Canada, and parts thereof, for use in the manufacture of nets or netting for the fisheries, but not for use in making nets or netting commonly used for sportsmen's purposes...	Free	Free	10 p.c.	Free	5 p.c.	10 p.c.
430*c*	Wire roofing nails of all sizes and wire nails one inch or more in length, of iron or steel, coated or not......... per one hundred pounds	85 cts.	$1.00	$1.50	40 cts.	55 cts.	60 cts.
430*e*	Wire nails less than one inch in length, and nails or tacks of all kinds, n.o.p., of iron or steel, coated or not.....	10 p.c.	$22\frac{1}{2}$ p.c.	30 p.c.	15 p.c.	$27\frac{1}{2}$ p.c.	30 p.c.

440d	Anchors for vessels:						
	(1) *Weighing less than forty pounds*....................	15 p.c.	15 p.c.	25 p.c.	Free	Free	Free
	(2) *Weighing forty pounds or over*....................	Free	Free	Free	Free	Free	Free
462d	Cinematograph and motion picture cameras for use by professional motion picture producers having studios in Canada equipped for motion picture production; parts of the foregoing..............................	Free	Free	15 p.c.	Free	Free	15 p.c.
	On and after July 1, *1963*	Free	9 p.c.	15 p.c.	Free	9 p.c. (On and after July 1, 1961)	15 p.c.
462i	Optical sound equipment: Dollies, or other mobile mounting units for motion picture cameras; Booms, without wiring, for use with microphones; Motion picture editing equipment, namely: film editing machines, film splicers, film synchronizers, film viewers, rewinds; Parts of the foregoing; All the foregoing when for use in the production of motion pictures by professional producers having studios in Canada equipped for motion picture production.. (Expires 1st July, *1963*)	Free	Free	15 p.c.	Free	Free (Expires 1st July, 1961)	15 p.c.
475c	Plates and electrotypes of metal *and positive and negative films*, for printing music.......... ..	Free	Free	Free	Free 10 p.c.	Free 15 p.c.	Free 20 p.c.
505c	Flooring of beech, birch, maple or oak, tongued *or* grooved, or jointed; floor tiles made of individual strips of beech, birch, maple or oak, joined together..	12½ p.c.	12½ p.c.	25 p.c.	12½ p.c.	12½ p.c.	25 p.c.
571a	(2) Mats, rugs, carpeting and matting of cocoa fibre, *n.o.p*.............................per square yard	6¼ cts.	7 cts.	10 cts.	6¼ cts.	7 cts.	10 cts.
597d	Musical instruments, namely: Autoharps, clavichords, harpsichords, harps; Bass *viols*, violas, violins, violoncellos; Strings for the foregoing; Recorders, xylophones; Bassoons, clarinets, English horns, fifes, flutes, oboes, piccolos, saxophones; Parts of the foregoing..............................	Free	Free	30 p.c.	Free	Free	30 p.c.
611a	(4) Conductive shoes for use in hospitals..............	Free	Free	40 p.c.	Free	Free	40 p.c.
	On and after July 1, *1962*	20 p.c.	27½ p.c.	40 p.c.	20 p.c.	27½ p.c. (On and after July 1, 1961)	40 p.c.

5. Resolved,

that any enactment founded upon the foregoing resolutions shall be deemed to have come into force on the 21st day of June, 1961, and to have applied to all goods mentioned in the said resolutions imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

BUDGET PAPERS

presented by

the Honourable Donald M. Fleming, M.P.,

for the information of Parliament

in connection with the Budget of 1961-1962

FOREWORD

The purpose of these Papers is twofold:

1. to present a general economic review of 1960, bringing together in one place and in convenient form some of the more comprehensive indicators of economic conditions prepared by the Dominion Bureau of Statistics, the Bank of Canada and other Government Agencies, together with brief comments;

2. to present a preliminary review of the Government Accounts for the fiscal year ended March 31, 1961.

PART I

ECONOMIC REVIEW OF 1960

The tables in this Budget Paper are based upon estimates provided by the Dominion Bureau of Statistics, the Bank of Canada and other Government Agencies. Some of the figures appear for the first time; others have been published elsewhere. All 1960 estimates are preliminary and subject to revision.

ECONOMIC REVIEW OF 1960

The year 1960 was, for the Canadian economy, one of special complexity. A high level of economic activity was continued; on the other hand there was also a high level of unused capacity, human and material. It is already apparent that there was an unusual conjuncture of economic forces, some of a special nature, others recognizably "cyclical", and still others of longer-term character.

It seems desirable that this year's "Economic Review" should be rather more extensive than those of past years. Since a broader perspective on current developments is particularly necessary, this Review pauses at many points to look back over past years and to compare trends in other countries.

Many of the broad developments in the world which affected us in Canada in 1960 have been widely discussed. A brief recital of them is sufficient to recall them and their impact upon the economy: the rebuilding with modern plant and equipment of the industrialized countries of Europe and Japan; the efforts of the underdeveloped countries of Asia, Africa and South America to achieve a sufficient rate of economic growth to support their rapidly expanding populations; the long-awaited dismantling of direct controls on the international movement of goods and capital; the rapid acceleration in the pace of scientific and technological advance, with all that that implies for nations and individuals, for economies and occupations; the emergence of more intense competition for markets and materials; the growing interdependence of the western world, expressing itself in closer integration of the policies of governments and business groups.

It is against such a broad and developing background that the following Review is presented.

THE NATIONAL ACCOUNTS

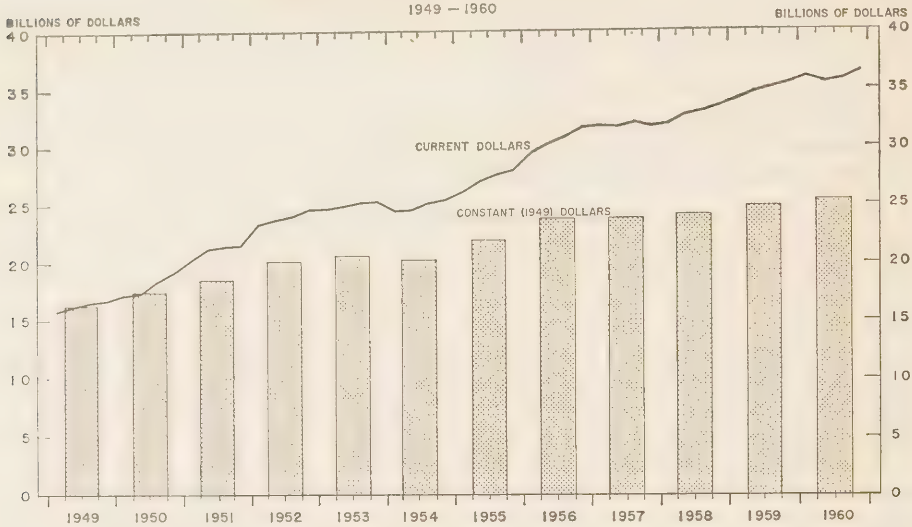
National Income and Product

Economic expansion in Canada in 1960 experienced a number of adjustments including: the aftermath of the United States steel strike which led to declines in United States economic activity and in purchases from Canada; an inventory readjustment within Canada (and in the United States); and a lower level of housing starts. At the same time, exports to overseas countries rose sharply in response to strong demand. These developments all affected the rate of production throughout the year, and thus the levels of employment, income, savings and investment, and imports. The adjustments were of a temporary character, but happened to coincide with certain long-run economic developments within the Canadian economy. These were: a rapid growth in the labour force, the appearance of temporary excess capacity in certain raw material producing industries, and the continuation of further changes in industrial technology These developments occurred at a time when competition, both domestic and foreign, was becoming more intense.

Gross National Product in Canada rose to \$36.0 billion in 1960, 3.2 per cent above the level of 1959. Two-thirds of this gain represented an increase in actual production; the increase in prices moderated and was largely confined to certain services and to capital goods.

As between the four quarters of the year, the first quarter showed some improvement; thereafter the economy hesitated until the latter part of the year when elements of increase more than offset those of decline. The rate of Gross National Product at the year-end was $36.4 billion, about 1 per cent above the average for 1960 as a whole.

GROSS NATIONAL EXPENDITURE
IN CURRENT AND CONSTANT (1949) DOLLARS[1]
1949 — 1960



(1) CURRENT DOLLARS SEASONALLY ADJUSTED AT ANNUAL RATES

As between the various sectors of the economy, it is apparent that the output of the service-producing industries rose slightly more than that of the goods-producing industries in 1960. Indeed, all of the major service industries showed some further growth. The volume of trade, both retail and wholesale, continued to expand. The steady growth in the sales volume of food stores, along with a moderate increase in other lines, more than offset a slight decline in the volume of sales of motor vehicles (new and old) and their accessories and supplies, and a substantial reduction in sales by lumber and building material dealers, associated with the fall-off in housing activity. Activity in the transportation industries rose in spite of declines in railways and urban and interurban transit systems. Substantial increases took place in air transport, trucking, shipping and through-put of pipelines. These developments in transportation reflect gradual changes in the structure of the industry. Economic activity in the communication industries continued to expand significantly, along with finance, insurance and real estate. There was some decrease in the volume of personal services. However, all other service groups continued to grow including government service at the provincial and municipal levels, business, recreational and community services.

Economic conditions in the goods-producing sector were more varied, although there was a gain on balance. A larger and higher quality grain crop more than offset the decline in livestock and poultry production and the total volume of agricultural output rose by more than 3 per cent over 1959. The substantial increase in production in forestry largely reflected the recovery which followed the prolonged strike of 1959.

For the year 1960 as a whole, output in mining was 1 per cent higher than 1959, although during the year the trend was slightly downward. The amount of exports, investment and profits attributable to mining all increased. The production of fuels and non-metals rose, while quarrying and metal mining declined. A 10 per cent drop in the output of iron ore, reflecting adjustments in United States demand following the steel strike, was a major contributing factor.

Since the end of World War II there has been heavy investment in mining and associated industries, and overall productivity has increased very substantially. Since 1949, output has risen by 153 per cent, while employment has increased by 20 per cent. Exports of minerals and their products have increased sharply. At the same time, a larger share of the expanding Canadian market has been met from domestic sources (e. g. petroleum).

Output and distribution of electric power and gas utilities rose by 11 per cent in 1960, with the latter rising by 24 per cent.

TABLE 1

NATIONAL INCOME AND GROSS NATIONAL PRODUCT

—	1957	1958	1959	Prelim. 1960
	(Millions of dollars)			
1. Wages, salaries, and supplementary labour income	16,018	16,524	17,761	18,514
2. Military pay and allowances	476	491	496	509
3. Corporation profits before taxes	2,581	2,518	2,907	2,735
4. Rent, interest, and miscellaneous investment income	1,980	2,124	2,277	2,362
5. Accrued net income of farm operators from farm production[1]	1,026	1,197	1,132	1,207
6. Net income of non-farm unincorporated business	2,008	2,125	2,218	2,105
7. Inventory valuation adjustment[2]	−78	−35	−115	−57
8. **National Income** (1+2+3+4+5+6+7)	**24,011**	**24,944**	**26,676**	**27,375**
9. Indirect taxes less subsidies	3,861	3,889	4,244	4,389
10. Capital consumption allowances and miscellaneous valuation adjustments	4,009	3,930	4,143	4,291
11. Residual error of estimate	28	104	−206	−96
12. **Gross National Product at Market Prices** (8+9+10+11)	**31,909**	**32,867**	**34,857**	**35,959**
13. Index of G.N.P. in Constant Dollars	100.0	101.1	104.3	106.5

[1] Includes accrued earnings arising out of the operations of the Canadian Wheat Board.

[2] See footnote 2, Table 7.

The movements in manufacturing production were diverse both within various sectors as well as within the year. In total, the volume of manufacturing output declined by 0.3 per cent for the year, with non-durables rising by 1.4 per cent and durables falling by 2.4 per cent. Total manufacturing production reached a peak in January, 1960, and then declined. From this peak, manufacturing production of durable goods fell by about 10 per cent to mid-year and then recovered partially. The decline in non-durables during the same period was more modest, amounting to about 3 per cent. Some renewed strength in the fourth quarter of 1960 brought production of non-durable goods close to the levels of the early part of the year.

In terms of the average for the year, most of the non-durable industrial groups showed an increase in output. Tobacco products, foods and beverages, printing and publishing, paper products and petroleum products recorded small gains. Production of miscellaneous manufactures and chemical products rose

substantially. It is of special interest that the products of these two groups also showed sharp gains in export sales. The production of leather products, rubber products, clothing and textiles declined.

With the exception of non-ferrous metal products, all the durable manufactures group declined in terms of changes in yearly averages. However, there was a 7 per cent increase in production of motor vehicles which eased the decline in the transportation equipment group. Sales of new passenger vehicles rose, both for domestic and foreign-produced automobiles.

Construction activity in total was down 5 per cent for the year, although it was rising in the last half of the year. There was little change in non-residential building, while the volume of residential building fell by 17 per cent. Private investment construction was 9 per cent lower in 1960 and public investment construction was 2 per cent higher.

It is useful to set the movements during the year 1960 against the background of longer-run changes in the structure of the economy, as revealed by changes in the composition of Gross Domestic Product. The following table shows percentage shares by industry for selected years from 1926.

TABLE 2

GROSS DOMESTIC PRODUCT AT FACTOR COST: PERCENTAGE DISTRIBUTION [1]

Industry	1926–1928	1936–1938	1947–1949	1953–1954	1957–1959
Agriculture	17.2	10.5	11.7	8.0	5.6
Forestry	1.3	1.4	2.1	1.8	1.3
Fishing and Trapping	.8	.5	.5	.4	.3
Mining, quarrying, oil wells	3.2	6.6	3.8	3.8	4.2
Manufacturing	22.0	24.2	28.5	28.6	26.8
Construction	4.2	3.1	5.0	6.0	6.8
Transportation, storage, communications, electric power and gas utilities	12.9	12.7	11.3	11.5	12.6
Trade	12.1	13.3	14.1	13.7	14.0
Finance, insurance and real estate	9.8	10.2	7.3	9.0	9.4
Public administration and defence	3.4	5.0	4.8	6.3	7.1
Service	13.1	12.4	10.9	10.9	11.9
Total	100.0	100.0	100.0	100.0	100.0
Total in billions of dollars	5.2	4.6	13.5	22.2	29.7

NOTE: Detail will not necessarily add to 100.0 due to rounding.

[1] It should be remembered that the table depicts percentage shares so that, against a background of rising economic activity, a smaller share may represent increasing production.

Small changes over short periods of time are difficult to interpret, but over longer periods some rather broad movements can be observed. Over the entire period, the relative contribution to total production attributable to agriculture has declined substantially while other industries have generally increased or remained fairly stable. Despite the relative decline in agriculture, its actual volume of output has been rising as a result of substantial capital investment and the application of newer techniques developed through extensive research. At the same time, the agricultural labour force has declined, so that output per farm worker has risen by about 75 per cent from 1947–1949 to 1957–1959.

The shares of manufacturing, mining, construction, trade and public administration and defence rose from 1926–1928 to the immediate postwar period, and have remained relatively stable or increased slightly in the past ten years.

The shifts in industrial structure and the accompanying changes in investment, output and productivity are reflected in changes in the per capita Gross National Product. In current dollar terms, the per capita G.N.P. in Canada more than trebled from 1929 to 1957–1959, as it did in the United States. It is interesting to note that the increase in Canada since the end of World War II has been considerably more rapid than in the United States, as shown in the following table (Canadian G.N.P. has been expressed in U.S. dollars for purposes of comparison):

TABLE 3

PER CAPITA GROSS NATIONAL PRODUCT

	1929	1936–1938	1947–1949	1953–1955	1957–1959
	(U.S. dollars)				
Canada	607	457	1,134	1,713	2,026
United States	857	669	1,697	2,311	2,611
Ratio Canada/U.S.	70.8	68.3	66.8	74.1	77.6

Turning to developments in the labour force, during 1960 average employment rose by 100,000 persons, or 1.7 per cent. This gain was more than accounted for by an increase of 117,000 in non-agricultural employment. The rise in employment was accompanied by a slightly shorter work week in manufacturing. Total output per man hour probably showed a slight increase for the year. At the same time that employment was rising by 1.7 per cent, the labour force jumped by 2.8 per cent, or 175,000 persons, and the average number of unemployed during the year increased by 75,000 to equal 7 per cent of the labour force. In 1960, women accounted for the major part of the increase in the labour force, as job opportunities in the expanding service industries attracted an increasing percentage of the female population.

The extraordinary gains made in recent years in the civilian labour force call for comment. These gains have been extraordinary, not only in relation to previous periods of Canadian history, but also in contrast to more modest increases in other industrialized countries.

TABLE 4

CIVILIAN LABOUR FORCE 1958

1954 = 100

Canada	112	United Kingdom	103
Italy	[illegible]	Norway	102
United States	106	Belgium	101
Germany	106	France	100
Netherlands	105		

Source: OEEC Statistical Bulletin, May, 1960.

More recent data available only for Canada, United States and the United Kingdom show equally striking comparisons.

TABLE 5

CIVILIAN LABOUR FORCE 1960

1954 = 100

Canada	U.S.A.	U.K.
117	109	105

The sharp gains in the Canadian labour force have been brought about by three main factors: the high birthrate since the mid-1940's; large-scale immigration in the postwar period; and rising rates of participation in the labour force by women, especially married women. The last factor is largely a reflection of the ability of married women to carry on their household duties in fewer hours due to major technological advances in the home, and of the increasing opportunities for women in the service industries where demands have been steadily growing. Immigration has not been as important in the past two years as it was earlier in the 1950's. More important to the present growth of the labour force are the large numbers of young Canadians, born in the mid-1940's and now seeking employment.

We turn now to the income flow in 1960. National income increased by 2.6 per cent, slightly less than the growth in Gross National Product. Labour income, investment income and farm income all rose more than national income, while corporation profits and unincorporated business income declined from 1959 levels.

Labour income reached $18.5 billion in 1960, 4.2 per cent higher than the previous year. The number of paid workers was 2.3 per cent higher; average hourly earnings in manufacturing were about 3 per cent higher and the average work week was fractionally shorter. Most of the increase in employment was among females in the relatively lower paid service industries and occupations. The rise in consumer prices was of the order of 1 per cent, and on a per capita basis there was a slight rise in real disposable income.

Preliminary estimates of corporation profits (after dividends paid abroad) amounted to $2,735 million, down by 6 per cent from 1959. During 1960, corporation profits fell from the first to the second quarter and for the remainder of the year were more or less stable. For the year as a whole, profits were lower in manufacturing, trade and in the transportation, communication and storage group. Within manufacturing, profits declined in iron and steel, wood products, electrical apparatus and supplies and the non-metallic minerals industries. There were moderate gains in the paper products and petroleum and coal products groups. Despite an increase in the value of trade, profits declined, as selling prices remained relatively stable while costs edged up. There were substantial gains in profits in the mining, quarrying and oil wells group, as exports increased and the exchange value of the U.S. dollar rose. There were also gains in the profits of financial services and of public utilities.

Rent, interest and miscellaneous investment income was 4 per cent higher than in 1959. Net rental income showed some decline as increased expenses more than offset some gain in gross rents.

Accrued net income of farm operators rose to $1,207 million, 7 per cent above 1959, while the numbers engaged in farming declined by 2 per cent. The number of people engaged in farming in 1960 was 37 per cent below the level of 1949 and the volume of farm output was 21 per cent higher.

Farm production increased in the year, the value of the grain crop rising by 11 per cent, more than offsetting some decline in the value of animal production. Farm cash income (excluding supplementary payments totalling $77 million) was about the same as in 1959. In contrast to 1959 when farm inventories were drawn down, there was a modest gain in holdings.

Net income of "other unincorporated business" declined by 5 per cent, with small increases in a number of industries failing to offset significant drops in construction and trade profits.

NATIONAL EXPENDITURE

For 1960 as a whole and despite the adverse pressures referred to earlier, the economy was sustained by increases in demand by consumers, government and purchasers abroad. New investment in business fell slightly, outlays for new housing declined more, and the level of total inventories, including farm stocks, was almost unchanged. These rather broad movements obscure important developments within the year, which will be discussed presently.

The flow of incomes to individuals was increased during the year as a result of increases in wages, farm incomes, investment incomes and transfer payments from government, all of which provided support for higher consumer spending. Government spending on current goods and services and on capital investments also rose, while Canada's exports of goods and services once more rose to record levels. The value of housebuilding activity fell sharply during the first half of the year, although this trend was reversed by year-end when housing starts began to rise sharply in response to various governmental measures introduced in the latter part of the year. There was a slight decline in business investment in plant and equipment. All told, the combination of domestic and foreign demands for Canadian goods rose by $1 2 billion, which was met, on balance, from Canadian production. This is indicated by the fact that total imports of goods and services were almost unchanged from 1959. As a result, the proportion of total demand filled by imports was at about the lowest level of the past decade.

TABLE 6

CHANGES IN COMPONENTS OF GROSS NATIONAL EXPENDITURE
(Millions of dollars)

—	1960 / 1959
Consumers	+927
Government	+300
Exports	+281
Sub-total	*+1,508*
Business Investment	
Housing	−258
Plant and Equipment	−24
Inventories	+19
Sub-total	*−263*
Total Purchases	+1,245
Imports	−(+33)
Residual Error	−110
Gross National Expenditure	**+1,102**

During 1960, the increases and decreases in total production were reflected by changes in purchases for final use and in the levels of inventory holdings. In the early part of the year, final purchases slowed down but inventory stocks were being built up rapidly so that G.N.P. rose. During the second quarter, final purchases declined, particularly for export and housing, and the inventory buildup was smaller so that total economic activity declined. By the third quarter of the year, final purchases were rising again, but part of this increased demand was met by drawing down inventories so that the rise in current economic activity was not as great as it might otherwise have been. By the final quarter of

the year, both final purchases and inventory holdings were rising and Gross National Product rose by 1.7 per cent. Erratic patterns of purchasing throughout 1960 took place in all major sectors except government which rose steadily throughout the year and provided consistent additional strength to the economy.

Turning to particular sectors, consumer spending rose by 4.1 per cent for 1960 as a whole, the real increase being about 3 per cent. The gain in population was 2.1 per cent in 1960 so that the "average" consumer increased his real spending on goods and services by nearly 1 per cent. Spending on goods rose by 3.4 per cent, with most of the gain taking place in non-durables. The major gains in non-durable spending were in food, tobacco and alcoholic beverages, clothing, electricity and gas. In the durable goods sector there were declines in net purchases of second-hand cars and in purchases of furniture, household appliances and radios, the changes in the latter groups being related in part to lower levels of housing completions. On the other hand, as a result of a year-end spurt, purchases of new cars rose by 7 per cent. In 1960, the sales of British and European cars increased by 20 per cent and sales of North American models rose by 5 per cent, so that the overseas share of the Canadian car market continued to increase. However, in the last months of 1960, the increasing overseas share of total Canadian car sales appears to have slowed down, and in December, 1960, was below the proportion achieved one year earlier.

Spending on services continued its long-term rise, gaining 5.3 per cent over 1959. The largest gain was in hospital and medical care, which rose by 9 per cent. There were also substantial increases in payments for shelter, household operation (e.g. electricity, gas, repairs), recreation and personal care and service. Payments for user-operated transportation were almost unchanged.

TABLE 7

GROSS NATIONAL EXPENDITURE

—	1957	1958	1959	Prelim. 1960
	(Millions of dollars)			
1. Personal expenditure on consumer goods and services	20,072	21,240	22,482	23,409
2. Government expenditure on goods and services	5,722	6,173	6,416	6,716
current expenditure	4,340	4,784	4,893	5,128
gross fixed capital formation	1,382	1,389	1,523	1,588
3. Business gross fixed capital formation[1]	7,335	6,975	6,894	6,612
new residential construction	1,409	1,763	1,734	1,476
new non-residential construction	3,103	2,811	2,589	2,567
new machinery and equipment	2,823	2,401	2,571	2,569
4. Value of physical change in inventories—total[2]	231	−333	297	316
non-farm business inventories	305	−207	351	229
farm inventories	−125	−93	−65	17
grain in commercial channels	51	−33	11	70
5. Exports of goods and services[3]	6,391	6,340	6,676	6,957
6. Imports of goods and services[3]	−7,813	−7,423	−8,115	−8,148
7. Residual error of estimate	−29	−105	207	97
8. Gross National Expenditure at Market Prices (1+2+3+4+5+6+7)	**31,909**	**32,867**	**34,857**	**35,959**
9. Index of G.N.E. in Constant Dollars	100.0	101.1	104.3	106.5

[1] Includes private businesses and institutions, and publicly owned Business Enterprises.

[2] The book value of inventories is deflated to remove the effect of price changes and the derived "physical" change is then valued at average prices of the current period to obtain the value of physical change. The difference between this value of physical change and the change in book value is called the inventory valuation adjustment (see line 7, Table 1).

[3] Minor adjustments have been made to the figures of current receipts and payments shown in Table 35 and in "The Canadian Balance of International Payments, 1957 to 1960", Dominion Bureau of Statistics, to achieve consistency with the other component series.

In this connection, purchases of gas, oil, grease, and automobile parts were also unchanged, so that total operating costs of private automobiles did not rise in 1960, despite a larger number of vehicles on the road. This may be attributable in part to the increasing use of smaller cars.

Prices of consumer goods increased by 0.6 per cent in 1960, with non-durable items (mainly food) rising by 0.8 per cent and durable goods prices declining by 0.4 per cent. Thus, the volume of durable goods purchases was slightly higher than the fractional gain shown by the value figures. Prices of services, especially medical costs, rose, the average increase being 2.2 per cent, thereby continuing a long-term trend. From 1949 to 1960 prices of services rose by 53 per cent while prices of goods rose 19 per cent.

Expenditure on goods and services by all levels of government rose in 1960 by $300 million, or 4.7 per cent above 1959 to a level of $6,716 million. Of this total, capital expenditures amounted to $1,588 million, increasing by $65 million over the previous year. The gain in total expenditures on goods and services by governments was more than accounted for by provincial and municipal governments, which increased their purchases by $393 million. There was a decline in spending on goods and services by the federal government of some $93 million, all of it occurring in the non-defence area. Defence expenditures were virtually unchanged from the year before.

As previously noted, business fixed capital formation declined for the year 1960 as a whole by 4.1 per cent or $282 million and about 6 per cent in volume.

The value of new housing activity declined in 1960 to $1,476 million from $1,734 million in 1959. Housing starts fell by 23 per cent to 109,000 units in 1960 from 141,000 units in 1959. There was a good deal of evidence to indicate that the decline reflected, in part, a less pressing demand for accommodation resulting from the very large increase in the supply of housing achieved in previous years. The declines took place during the early part of the year, since by April housing starts had begun to improve moderately. In the fourth quarter of the year, starts were back to a seasonally adjusted annual rate of 131,000 units, and this improvement has carried forward into 1961. The improvement in housing in the last half of 1960 was associated with a greater availability of mortgage credit, as N.H.A. rates became more attractive to the lending institutions (other than the chartered banks which are not authorized to lend at rates in excess of 6 per cent) and as C.M.H.C. increased its direct lending. At the same time, a further liberalization of the N.H.A. regulations made it

TABLE 8

TOTAL MORTGAGE LOANS APPROVED

(Dwelling Units)

—	1959	1960
National Housing Act Mortgage Loans—		
Life, Trust, Loan, etc.	11,841	21,724
Chartered Banks	14,844	89
C.M.H.C. Loans	34,241	15,932
Sub-total	*60,926*	*37,745*
Conventional Mortgage Loans—		
All Lending Institutions	46,882	42,164
Total	**107,808**	**79,909**

possible to acquire houses with smaller down payments and to obtain mortgage money for longer maturity periods.

The number of housing units actually completed declined less than the number of new starts, the comparative statistics are: 124,000 units in 1960 and 146,000 units in 1959. Completions in 1960 were below the level of the two previous record years but above the level of 1957.

Outlays for private non-residential construction amounted to $2,567 million, fractionally below the level of 1959. The price "deflator" rose by more than 2 per cent so that the implied decline in volume was about 3 per cent. There were some offsetting increases and declines. Construction outlays were slightly lower in manufacturing, trade and some business services and higher in mining, quarrying and oil wells.

Investment in new machinery and equipment was unchanged from 1960, amounting to $2,569 million. Actually, this figure has only been exceeded in the extraordinary years of 1956 and 1957. The 1960 level was 9 per cent below such levels. The absence of any change in the total level of new investment in machinery and equipment concealed a significant increase in investment in manufacturing and an offsetting decline in investment in utilities. Those affected were mainly electric power and railways, the latter reflecting the near-completion of the dieselization programme.

The accumulation of inventories in the economy in 1960 totalled $316 million, or very close to the 1959 total of $297 million.

TABLE 9

ANNUAL CHANGE IN INVENTORIES

—	1959	1960
	(Millions of dollars)	
Non-Farm Business Inventories	351	229
Farm Inventories:		
Farm Stocks of Grain	−85	3
Livestock Inventories	20	14
Grain in Commercial Channels	11	70
Total Change in Inventories	**297**	**316**

However, changes during the course of the year were substantial, with large accumulations in the first half of the year being followed by a liquidation in the third quarter and a modest increase in the last quarter of the year. While the annual figures show virtually no net effect on production, the movements described were very large; from plus $752 million in the first quarter, adding to current production, to minus $132 million in the third quarter, depressing current production. The "swing" in inventories thus totalled $884 million, or equivalent to about 2½ per cent of the Gross National Product.

The buildup of manufacturing inventories in the first half of the year took place while shipments were declining and stock-sales ratios rising. The most significant increases took place in holdings of finished goods. This acted as a dampener on manufacturing production later in the year when increasing demands were met out of inventories rather than by means of new production. The liquidation of inventories in the last half of 1960 began with raw materials and goods in process, but in the final months of the year stocks of finished goods were also worked down. Although total liquidation of manufacturing stocks

TABLE 10

CHANGES IN INVENTORIES

—	1959 annual	1960 annual	1960 quarterly at annual rates 1Q	2Q	3Q	4Q
	(Millions of dollars)					
Manufacturing	118	66	304	216	−188	−68
Wholesale trade	85	15	88	36	−100	36
Retail trade	125	174	248	112	220	116
Other	23	−26	8	−28	−108	24
Total Non-Farm Business Inventories	*351*	*229*	*648*	*336*	*−176*	*108*
Farm Inventories and grain in commercial channels	−54	87	104	88	44	112
Total Inventory Change	**297**	**316**	**752**	**424**	**−132**	**220**

lessened in the final quarter of 1960, there was actually a heavier drawing down of durable goods inventories, particularly in the iron and steel industry, and an accumulation of some non-durable goods.

The shifts in inventories in 1960, while of major significance to the pace of total economic activity, were far less than in previous postwar periods. The shifts from the high point of accumulation to the low point of liquidation for non-farm business inventories are shown below, in relation to the level of Gross National Product.

TABLE 11

LIQUIDATIONS OF NON-FARM BUSINESS INVENTORIES

Period of Peak: Accumulation: Liquidation	(1) Peak Rate of Accumulation	(2) Peak Rate of Liquidation	(3)=Change Col. (1) to Col. (2)	(4) Gross National Product at Peak Liquidation	(5)= (3)÷(4) Change in Inventories as a % of G.N.P.
	(Millions of dollars)				
2Q 1951 to 4Q 1951	1,220	−372	−1,592	21,624	7.4
3Q 1953 to 2Q 1954	516	−184	−700	24,588	2.8
1Q 1956 to 1Q 1958	1,124	−656	−1,780	32,000	5.6
1Q 1960 to 3Q 1960	648	−176	−824	35,840	2.3

The more moderate shift in inventories in 1960 reflects, in the main, changes in the basic economic environment. As compared with earlier periods, supplies were ample in 1960 and deliveries were quick. Businessmen did not expect significant price changes and were not tempted to speculate against price increases. There has been a greater concern for costs, and high inventory holdings impose additional interest costs and other costs on business. Finally, newer techniques of inventory control have made it easier to operate with lower levels of inventory stocks.

Exports of goods and services reached $6,957 million in 1960, setting a new record, about 4 per cent above 1959. Imports of goods and services were little changed from 1959, and totalled $8,148 million. The balance of payments deficit amounted to $1,191 million (on a national accounts basis), $248 million or 17 per cent below the 1959 deficit of $1,439 million.

Looking at Canada's foreign trade over a longer period, from 1950 to 1960 when world trade was expanding rapidly, Canadian exports and imports of goods each increased by about three-fourths. From 1953 to 1960, Canadian

exports and imports of goods each rose by nearly one-third. From 1956 to 1960 a different picture emerges: exports of goods continued to rise by 12 per cent while imports of goods were almost unchanged. Thus, the import of goods by Canada in relation to the Gross National Product was 17.4 per cent in 1950, 16.8 per cent in 1953, 18.2 per cent in 1956 and only 15.4 per cent in 1960.

TABLE 12

INDEX OF CANADA'S TRADE

1960

—	Exports of Goods	Imports of Goods
1950=100	172	177
1953=100	130	132
1956=100	112	100

Likewise, the proportion of the total supply of Canadian goods and services (including imports), met by imported goods and services, was lower in 1960 than in earlier periods. For the four years 1950, 1953, 1956 and 1960 the percentages were respectively: 20.0; 18.9; 20.1; and 18.5.

Personal Income* and Its Disposition

Personal income rose to $27,442 million in 1960. All components, with the exception of non-farm unincorporated business income, showed increases, with the largest percentage increase coming from government transfer payments. The gain in personal income, 4.3 per cent above 1959, was greater than that of national income, which increased 2.6 per cent. One reason for this was the 13 per cent rise in government transfer payments to persons which do not appear in national income. Another reason was the enhanced flow of interest and dividend payments to persons which, along with net rental incomes, rose 5 per cent. Total corporation profits, which appear in national income and not in personal income, declined by 6 per cent. The increase in transfer payments consisted of a number of items including: higher family allowances and old age security payments resulting from a larger population; higher payments to farmers including the special payment to western grain producers; a larger flow of unemployment insurance benefits; increased provincial payments to hospitals under the Dominion-Provincial Hospitalization Scheme and in the form of grants; and higher provincial grants to universities and other non-profit organizations.

Personal direct tax yields increased by 13.2 per cent over 1959 to a total of $2,358 million. Personal income tax payments at the federal and provincial levels rose by 13.4 per cent, reflecting higher levels of personal income and a higher average rate of tax in 1960. In 1959, the new rates of federal taxation were applicable only to the latter half of the year, while in 1960 the new rates applied to the full year. Succession duty payments increased by 21.5 per cent, while miscellaneous taxes, including premiums under the hospital insurance scheme and licence fees for private automobiles, rose by 6.7 per cent.

After deducting direct taxes from personal income, the residual, personal disposable income, amounted to $25,084 million, 3.5 per cent above 1959.

* It should be noted that incomes of "persons" in the personal account include those of non-profit organizations and unincorporated businesses as well as of individuals.

TABLE 13

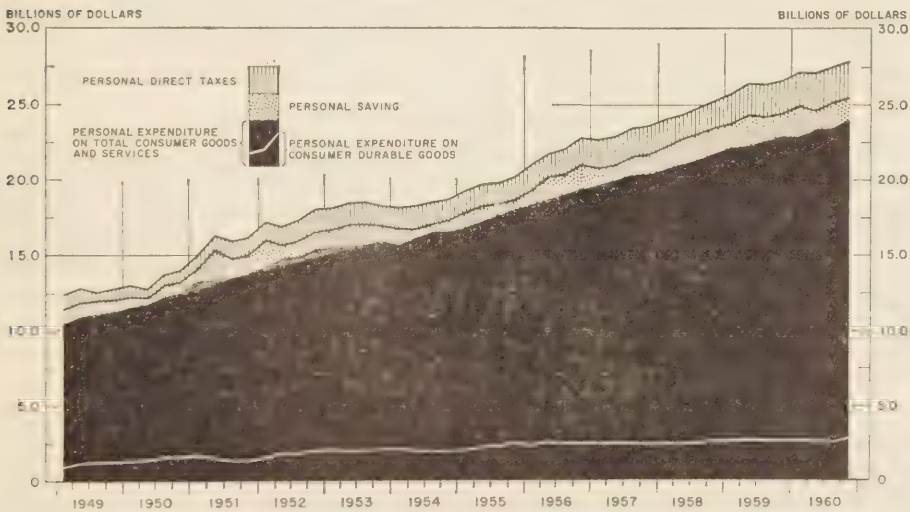
SOURCES OF PERSONAL INCOME

—	1957	1958	1959	Prelim. 1960
	(Millions of dollars)			
1. Wages, salaries and supplementary labour income..	16,018	16,524	17,761	18,514
Deduct: Employer and employee contributions to social insurance and government pension funds....	−590	−615	−649	−739
2. Military pay and allowances....	476	491	496	509
3. Net income received by farm operators from farm production[1]....	1,026	1,198	1,136	1,201
4. Net income of non-farm unincorporated business...	2,008	2,125	2,218	2,105
5. Interest, dividends and net rental income of persons[2]....	2,141	2,288	2,559	2,696
6. Transfer payments to persons—				
(a) from government (excluding interest)......	2,076	2,653	2,758	3,116
(b) charitable contributions made by corporations....	36	38	40	40
7. **Personal Income** (1+2+3+4+5+6).....	**23,191**	**24,702**	**26,319**	**27,442**

[1] Excludes undistributed profits of the Wheat Board and an inventory valuation adjustment on a calendar year basis for grain held by the Wheat Board.

[2] Includes all government debt interest paid to persons.

DISPOSITION OF PERSONAL INCOME[1]



[1] SEASONALLY ADJUSTED AT ANNUAL RATES

Personal saving*, or disposable income less consumer spending, totalled $1,675 million in 1960 compared with $1,754 million in 1959. Personal saving as a percentage of disposable income was 6.7 per cent in 1960 and 7.2 per cent in 1959.

The ratio of personal saving to disposable income in Canada over the period 1949 to 1960 averaged 6.7 per cent. Over the same period in the United States

* Personal saving is represented by changes in assets and liabilities of persons and includes, for example, changes in liquid assets (cash, bonds and stocks), life insurance, consumer and mortgage debt and the value of inventory changes of unincorporated business and farmers.

the ratio was 7.2 per cent. This is of considerable interest, since over these twelve years the average per capita personal disposable income in the United States was $1,642 U.S., while in Canada it was $1,172 Canadian. That is to say, on an average income almost 30 per cent below his United States counterpart, the "average" Canadian saved nearly the same proportion of his income.

TABLE 14

DISPOSITION OF PERSONAL INCOME

—	1957	1958	1959	Prelim. 1960
	(Millions of dollars)			
1. Personal direct taxes—				
(a) income taxes	1,693	1,554	1,744	1,977
(b) succession duties	126	126	130	158
(c) miscellaneous taxes	98	108	209	223
Total direct taxes	1,917	1,788	2,083	2,358
2. Personal expenditure on consumer goods and services—				
Goods—				
(a) non-durable	10,402	10,878	11,315	11,783
(b) durable	2,430	2,499	2,680	2,687
Services	7,240	7,863	8,487	8,939
Total consumer expenditure	20,072	21,240	22,482	23,409
3. Personal saving—				
(a) personal saving excluding farm inventories	1,327	1,767	1,819	1,658
(b) change in farm inventories	−125	−93	−65	17
Total personal saving	1,202	1,674	1,754	1,675
4. **Personal Income** (1+2+3)	**23,191**	**24,702**	**26,319**	**27,442**

Source and Disposition of Saving

Total saving in 1960 amounted to $5,834 million, about 2 per cent below the level of 1959. Business saving rose about 1 per cent offsetting for the most part the small decline in net personal saving to which reference was made above. On a national accounts basis, the combined deficit (i.e., negative saving) of all levels of government increased from $536 million in 1959 to $809 million in 1960. Almost five-sixths of the increase in the deficit was accounted for by provincial and municipal governments, their combined deficit rising from $174 million in 1959 to $398 million in 1960. The federal government deficit (on a national accounts basis) increased from $362 million to $411 million.

The accompanying tables on source and disposition of saving outline the major sources of saving in the economy, although the tables are not designed to show the flows of saving between sectors. For example, while the largest element in total saving in 1960 was accounted for by business saving, this was less than business investment, so that business as a whole would have been a net borrower. The government surplus or deficit is measured on a national accounts basis which is described in a subsequent section. It should be noted that government expenditure includes outlays of a capital nature. In terms of the sector accounts, a government surplus represents national saving and a government deficit represents dissaving.

The table dealing with the disposition of national saving shows the use of these savings both in terms of business capital investment (including inventories) and in net foreign investment.

TABLE 15

SOURCES OF SAVING

—	1957	1958	1959	Prelim. 1960
	(Millions of dollars)			
Personal saving[1]	1,202	1,674	1,754	1,675
Business gross saving—total	4,863	4,741	5,062	5,121
(a) Undistributed corporation profits[2]	854	812	923	824
(b) Capital consumption allowances and miscellaneous valuation adjustments	4,009	3,930	4,143	4,291
(c) Adjustment on grain transactions[3]	....	−1	−4	6
Inventory valuation adjustment	−78	−35	−115	−57
Adjusted government surplus (+) or deficit (−)[4]	100	−1,030	−536	−809
Residual error of estimate[5]	28	104	−206	−96
Total	6,115	5,454	5,959	5,834

[1] See Table 14.
[2] See Table 17.
[3] Accrued earnings arising out of operations of the Canadian Wheat Board.
[4] See Table 26.
[5] See Tables 1 and 7.

TABLE 16

DISPOSITION OF SAVING

—	1957	1958	1959	Prelim. 1960
	(Millions of dollars)			
Business gross fixed capital formation	7,335	6,975	6,894	6,612
Value of physical change in inventories	231	−333	297	316
Surplus (+) or deficit (−) on current account with non-residents[1]	−1,422	−1,083	−1,439	−1,191
Residual error[2]	−29	−105	207	97
Total	6,115	5,454	5,959	5,834

[1] Minor adjustments have been made to the figures appearing in Table 35.
[2] See Tables 1 and 7.

Business saving rose from \$5,062 million to \$5,121 million from 1959 to 1960 despite a 6 per cent decline in corporation profits. The decline in profits was partially offset by a decline in income tax liabilities, whereas dividend payments remained stable. Undistributed corporation profits were about \$100 million lower in 1960 than in the preceding year, but depreciation and similar allowances of the entire business sector grew by \$148 million, so that business gross saving increased.

Changes in total saving are naturally and closely related to changes in total income, which in its turn is a reflection of the total value of production. Table 18 lists year-to-year changes in the Gross National Product and in total savings. The accompanying chart traces quarterly movements of total national saving from 1950.

TABLE 17

CORPORATION PROFITS, TAXES AND DIVIDENDS

—	1957	1958	1959	Prelim. 1960
	(Millions of dollars)			
Corporation profits before taxes including dividends paid to non-residents[1]	3,056	2,988	3,401	3,200
Deduct: corporation income tax liabilities	1,337	1,300	1,541	1,449
Excess of tax liabilities over collections	−213	−36	101	−223
Tax collections	1,550	1,336	1,440	1,672
Corporation profits after taxes	1,719	1,688	1,860	1,751
Deduct dividends paid out[2]	865	876	937	927
Undistributed corporation profits[3]	854	812	923	824

[1] Includes depletion charges and is adjusted for losses, and for conversion to a calendar year basis.

[2] Includes charitable contributions made by corporations (See Table 13).

[3] See Table 15.

TABLE 18

YEAR-TO-YEAR PERCENTAGE CHANGES IN GROSS NATIONAL PRODUCT AND NATIONAL SAVING

Year	% Change in Gross National Product	% Change in National Saving
1951/1950	+17.6	+22.1
1952/1951	+13.3	+11.2
1953/1952	+ 4.3	+ 1.2
1954/1953	− 0.6	−15.2
1955/1954	+ 9.1	+16.9
1956/1955	+12.7	+28.6
1957/1956	+ 4.3	− 3.9
1958/1957	+ 3.0	−10.8
1959/1958	+ 6.1	+ 9.3
1960/1959	+ 3.2	− 2.1

NATIONAL SAVING, BY QUARTERS, 1950-1960

(Seasonally Adjusted at Annual Rates)

Investment and Capital Expenditure

Private and public capital expenditure totalled $8,200 million in 1960, 2.6 per cent below the level of 1959. The decline was more than accounted for by reduced activity in housing which was lower by $263 million or 15 per cent. On balance, all other investment increased by $46 million. Capital expenditure was 22.8 per cent of the Gross National Product, below the levels of the period of extraordinary resource development in 1956 and 1957, but about the same as earlier years in the decade.

During the past decade, capital investment in Canada both public and private has continued at high levels. Indeed, the ratio of investment to Gross National Product has remained well over 20 per cent, one of the highest rates in the western world. This investment includes a wide variety of projects: resource development, manufacturing plant, transportation and communication facilities, fuel and power projects, trade, finance and commercial services, housing, hospitals, schools and government departmental expenditures.

TABLE 19

CAPITAL EXPENDITURES AS PERCENTAGE OF GROSS NATIONAL PRODUCT

1947	18.5	1954	23.0
1948	20.4	1955	23.0
1949	21.6	1956	26.3
1950	21.9	1957	27.3
1951	22.4	1958	25.4
1952	22.9	1959	24.1
1953	23.9	1960	22.8

The lower level of capital investment and smaller share of the G. N. P. in 1960 compared with 1956 and 1957 reflect, in the main, the completion of major resource developments. By nature, much of this type of investment requires a "bunching" of investment outlays. It is not physically possible, or economically feasible, to install small yearly increments in a project such as, for example, a hydro-electric power development. Once completed, these investments serve major needs for a number of years until the accumulation of gradually rising demands, both at home and abroad, impels a further expansion of facilities. Since the completion of the latest round of expansion in some major basic industries, there has been a shift to other types of capital including housing, social capital (e. g., schools, hospitals), government outlays (e. g., roads, highways, sewers, airports, docks and other engineering works) and service industries. These outlays have offset to a considerable extent the declines in investment which have taken place in industries such as mining and power. The following percentage distribution of capital investment shows the picture over the past five years.

Turning to 1960, new investment in agriculture, fishing and forestry rose modestly over 1959. In mining, quarrying and oil wells there was a sharp 12 per cent gain over the preceding year although both the level of new investment and its share of total investment were well below 1957.

Manufacturing investment in 1960 rose by 4 per cent over 1959; new construction declined by $24 million but investment in new machinery and equipment rose sharply by $72 million, or nearly 10 per cent. There were significant increases in iron and steel products, paper products and chemical products, where export sales grew rapidly in 1960, and smaller increases in food and beverages, rubber products, textile products, and non-ferrous metal products. There were declines in investment in a number of manufacturing industries including

TABLE 20

PERCENTAGE DISTRIBUTION OF PRIVATE AND PUBLIC CAPITAL OUTLAYS

Sector	1956	1957	1958	1959	1960
BUSINESS CAPITAL					
Forest and Mineral Products	14.8	14.2	8.5	8.6	10.0
Fuel and Power	15.3	17.9	15.9	12.4	12.7
Sub-total	*30.1*	*32.1*	*24.4*	*21.0*	*22.7*
Trade, Finance and Commercial Services	7.6	7.9	8.4	9.9	9.6
Transportation, Storage and Communication	10.2	12.1	12.8	12.2	11.7
Other	14.4	12.7	12.6	13.9	14.2
Sub-total	**62.3**	**64.8**	**58.2**	**57.0**	**58.2**
HOUSING AND SOCIAL CAPITAL					
Housing	19.3	16.4	21.3	20.8	18.2
Institutional Services	5.0	5.2	6.1	6.4	7.0
Government Departments and Waterworks	13.4	13.6	14.4	15.8	16.6
Sub-total	**37.7**	**35.2**	**41.8**	**43.0**	**41.8**
Total Capital Expenditures	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

wood products, printing and publishing, transportation equipment, non-metallic mineral products and products of petroleum and coal.

New investment in utilities declined about 5 per cent in 1960. This group is defined as electric power, gas and waterworks, and transportation, storage and communication. Investments in this area are often huge and show sharper changes over the years compared with many other industries. There were declines in investment in electric power, gas distribution, railway transport (reflecting the near-completion of the dieselization programme and of rail lines to certain mining areas) and telegraphs, water and motor transport, and grain elevators. On the other hand, there were increases in urban transit, telephones, broadcasting, and in the group comprising air transport, warehousing, oil and gas pipelines and toll highways and bridges. The latter group showed a substantial increase of $42 million, and reflects the changing forms of transportation in Canada.

New investment in trade declined by $15 million, about 4 per cent. In the finance field, there was a decline of $18 million, more than accounted for by smaller outlays of real estate companies engaged in developing, owning and leasing properties.

In the service field, investment in commercial services declined by $13 million, but institutional services increased their outlays by $40 million, most of it in schools. Outlays for hospitals totalled $153 million, about $1 million higher than in 1959*. Almost all capital outlays for schools and a substantial share of outlays on hospitals are included under government expenditure on goods and services. Capital outlays by government departments rose to $1,277 million, 3 per cent above 1959. All of the gain took place at the provincial and municipal level; federal department outlays declined by $26 million.

* According to the Outlook for Private and Public Investment, 1961, capital outlays for hospitals are to rise by $112 million this year.

TABLE 21

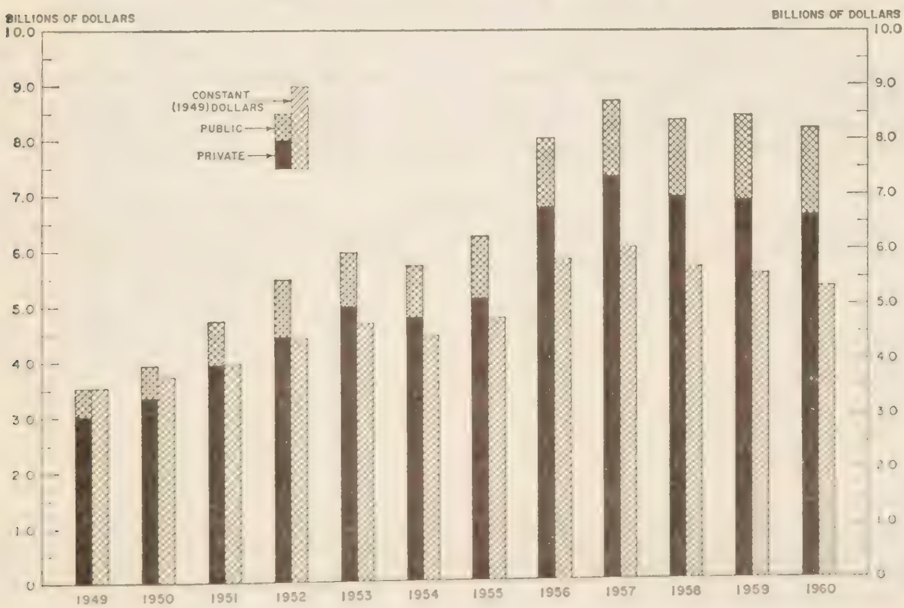
PRIVATE AND PUBLIC CAPITAL EXPENDITURE

—	1957	1958	1959	Prelim. 1960
	(Millions of dollars)			
Agriculture and fishing	434	465	539	548
Forestry	48	33	48	52
Mining, quarrying and oil wells	606	342	342	382
Manufacturing	1,479	1,095	1,144	1,192
Electric power, gas and water works	949	845	766	701
Transportation, storage and communications	1,359	1,308	1,076	1,058
Construction industry	158	157	145	137
Trade, finance and commercial services	690	705	833	788
Institutions	454	514	536	576
Housing	1,430	1,782	1,752	1,489
Government departments	1,110	1,118	1,236	1,277
Total Capital Expenditure[1]	**8,717**	**8,364**	**8,417**	**8,200**
Total Capital Expenditure as a percentage of Gross National Expenditure	27.3	25.4	24.1	22.8
Index of total Capital Expenditure in Constant Dollars	100.0	94.0	92.3	88.0

[1] For reconciliation with Business Gross Fixed Capital Formation in housing, plant and equipment in Table 7, see below.

	1957	1958	1959	Prelim. 1960
PRIVATE AND PUBLIC CAPITAL EXPENDITURE—Table 21	8,717	8,364	8,417	8,200
DEDUCT:				
Provincial hospitals and schools, and municipal schools	−246	−247	−264	−291
Government housing excl. C.M.H.C. rental housing	−21	−19	−18	−13
Direct government department outlays	−1,110	−1,118	−1,236	−1,277
Other	−5	−5	−5	−7
BUSINESS GROSS FIXED CAPITAL FORMATION IN HOUSING, PLANT AND EQUIPMENT—Table 7	7,335	6,975	6,894	6,612

PUBLIC AND PRIVATE CAPITAL EXPENDITURE



Revenue and Expenditure of all Governments

On the National Accounts basis, the combined deficit of all levels of government in 1960 was $809 million,* compared with $536 million in 1959. An increase in revenue during 1960 was more than offset by a larger increase in expenditures at all levels of government. The major portion of the increase in the deficit for 1960 occurred at the provincial and municipal levels since the deficit of the federal government was only moderately higher in 1960 than in 1959.

TABLE 22

REVENUE AND EXPENDITURE OF ALL GOVERNMENTS
(National Accounts Basis)

—	1959			1960		
	Revenue	Expenditure	Deficit	Revenue	Expenditure	Deficit
	(Millions of dollars)					
Federal	6,005	6,367	362	6,280	6,691	411
Provincial-Municipal	4,648	4,822	174	5,017	5,415	398
Total	**10,653**	**11,189**	**536**	**11,297**	**12,106**	**809**

To obtain a comparison, on a National Accounts basis, between government expenditures and the Gross National Expenditure, it is necessary to limit the comparison to government expenditures on goods and services (as distinct from transfer payments), since these are the only government outlays included in the Gross National Expenditure account. In 1960, expenditures on goods and services by the combined levels of government represented 18.7 per cent of Gross National Expenditure compared with a proportion of 18.4 per cent in 1959. In 1949, before the Korean war and the related rearmament programme, this proportion was 13 per cent. Largely as a result of the buildup in defence expenditures the proportion rose to approximately 18 per cent in 1952. In the years from 1952 to 1960, the rise in government expenditures on goods and services has been very slightly in excess of the growth in Gross National Expenditure.

Within the total, however, there have been considerable changes as between the shares attributable to different levels of government. As is evident from the table below, provincial and municipal government expenditures on goods and services have increased as a proportion of Gross National Expenditure, while the share of federal government expenditures is now lower than in 1952.

TABLE 23

GOVERNMENT OUTLAYS ON GOODS AND SERVICES AS A PROPORTION OF G.N.E.

—	1949	1952	1960
Expenditures by:			
Federal—Defence	2.2	7.5	4.3
Non-defence	3.1	2.9	3.3
Total Federal	*5.3*	*10.4*	*7.6*
Provincial and Municipal	7.7	7.4	11.1
All levels of Government	**13.0**	**17.8**	**18.7**

* The following section discusses only those government transactions relevant to the National Accounts. As a result, the figures used may not agree with those shown in other Public Accounts. Table 26 indicates the reconciliation between federal deficit or surplus for purposes of the National Accounts and the comparable figures appearing in the Public Accounts. In particular, federal corporate income taxes have been adjusted to an accrual basis. In 1959 this adjustment increased revenues by $101 million and in 1960 decreased revenues by $223 million.

Government expenditures on goods and services as recorded in the Gross National Expenditure account include expenditures not only on current administrative costs but also on construction and on machinery and equipment. These items are in the nature of capital investment, but are not treated as investment expenditures. Expenditures of this type made by all levels of government during the period from 1958 to 1960 are set out in the following table.

TABLE 24

OUTLAYS ON NEW CAPITAL GOODS BY ALL LEVELS OF GOVERNMENT

—	Housing	Other Construction	Machinery and Equipment	Total[1]	% of Capital Outlays to Total Government Expenditures on Goods and Services
	(Millions of dollars)				
1958	19	1,237	133	1,389	22
1959	18	1,368	137	1,523	23
1960[2]	13	1,431	144	1,588	24

[1] These figures exclude investment expenditure by government business enterprises which is included in the national accounts item for business capital formation.

[2] Preliminary.

The expenditures on other construction cited in this table cover a great variety of projects. Final data are not yet available giving a detailed analysis of government outlays on new construction for either 1959 or 1960. While total expenditures for this purpose in 1960 were somewhat higher than in 1958, the general pattern of expenditure on various categories of construction can be illustrated by means of detailed data for 1958 in the table below.

TABLE 25

EXPENDITURES ON NEW CONSTRUCTION BY GOVERNMENTS
1958

Category	Federal	Provincial	Municipal	Total
	(Millions of dollars)			
Office buildings	68	14	10	92
Schools and educational buildings	13	21	175	209
Hospitals, clinics, etc	8	27	—	35
Other building construction	69	20	28	117
Total Building Construction	158	82	213	453
Marine engineering works	36	1	1	38
Roads, roadwork and aerodromes	57	308	131	496
Water, sanitation and utilities	13	14	82	109
Other engineering construction	25	81	35	141
Total Engineering Construction	131	404	249	784
Total New Construction	**289**	**486**	**462**	**1,237**

As has already been indicated, government expenditures on goods and services are the only government expenditures which form part of the Gross National Expenditure. However, to arrive at the figure for the combined government deficit which is cited above and which appears in the savings and investment

TABLE 26

GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

—	Prelim. 1959	Prelim. 1960	Change
	(Millions of dollars)		
GOVERNMENT REVENUE—			
Direct Taxes—Persons	**2,083**	**2,358**	**+275**
Income—			
Federal	1,692	1,917	+225
Provincial and Municipal	52	60	+8
Succession Duties—			
Federal	76	97	+21
Provincial	54	61	+7
Miscellaneous—			
Federal	2	2	....
Provincial and Municipal	207	221	+14
Direct Taxes—Corporations	**1,541**	**1,449**	**−92**
Income—			
Federal	1,280	1,160	−120
Provincial	261	289	+28
Other Direct Taxes—			
Withholding taxes—Federal	**72**	**77**	**+5**
Indirect Taxes	**4,442**	**4,623**	**+181**
Federal	2,131	2,181	+50
Provincial and Municipal	2,311	2,442	+131
Investment Income	**993**	**1,060**	**+67**
Federal	339	354	+15
Provincial and Municipal	654	706	+52
Employer and Employee Contributions to Social Insurance and Government Pension Funds	**649**	**739**	**+90**
Federal	413	492	+79
Provincial and Municipal	236	247	+11
Transfers from Other Governments—			
Provincial and Municipal	**873**	**991**	**+118**
Total Revenue	**10,653**	**11,297**	**+644**
Federal	6,005	6,280	+275
Provincial and Municipal	4,648	5,017	+369

TABLE 26—Concluded

GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

—	Prelim. 1959	Prelim. 1960	Change
	(Millions of dollars)		
GOVERNMENT EXPENDITURE—			
Goods and Services	**6,416**	**6,716**	**+300**
Federal—			
Defence	1,560	1,561	+1
Non-defence	1,272	1,178	−94
Provincial and Municipal	3,584	3,977	+393
Transfer Payments to Persons	**2,758**	**3,116**	**+358**
Federal	1,795	1,983	+188
Provincial and Municipal	963	1,133	+170
Interest on Public Debt	**944**	**1,049**	**+105**
Federal	678	756	+78
Provincial and Municipal	266	293	+27
Subsidies	**198**	**234**	**+36**
Federal	189	222	+33
Provincial and Municipal	9	12	+3
Transfers to Other Governments—			
Federal	**873**	**991**	**+118**
Total Expenditure	**11,189**	**12,106**	**+917**
Federal	6,367	6,691	+324
Provincial and Municipal	4,822	5,415	+593
Deficit (−) **or Surplus** (+)	**−536**	**−809**	**+273**
Federal[1]	−362	−411	+49
Provincial and Municipal	−174	−398	+224
Total Expenditure minus deficit (or plus surplus)	**10,653**	**11,297**	**+644**
Federal	6,005	6,280	+275
Provincial and Municipal	4,648	5,017	+369

[1] Reconciliation with Public Accounts Surplus or Deficit shown below.

	Prelim. 1959	Prelim. 1960
	(Millions of dollars)	
Federal Government calendar year surplus for national accounts purposes	−362	−411
Adjustments:		
Difference between calendar and fiscal year	−34	−75
Difference between corporation tax accruals and government receipts	−101	+223
Revenue items omitted	+23	+17
Reserves, write-offs and similar items omitted from expenditure	−253	−62
Shipment of military equipment to NATO countries less replacement	+36	....
Extra-budgetary funds for pensions and social insurance (net)	+37	−60
Adjustment to place debt interest on a "due date" basis	−55	+3
Other adjustments	+100	−48
Federal surplus for fiscal year as per public accounts	−609	−413

account, it is necessary to take into account certain other government outlays. After making this adjustment to the statistics, it appears that in 1960 the total of all government expenditures increased by $917 million, or 8 per cent, to an amount of $12,106 million. It should be noted that in terms of the impact of the government sector on the economy, this figure constitutes gross government expenditures since, in addition to direct expenditures on goods and services, it includes government outlays on transfers to persons, interest on the public debt, subsidies and transfers to other levels of government. These payments may in turn be used by the recipients for expenditures on goods and services. The table below indicates the percentage distribution of total government expenditures among these items in 1959 and 1960.

TABLE 27

PERCENTAGE DISTRIBUTION OF TOTAL EXPENDITURES
ALL LEVELS OF GOVERNMENT

—	1959	1960
Goods and services	57.3	55.5
Transfers to persons	24.6	25.7
Interest on public debt	8.4	8.7
Subsidies	1.8	1.9
Transfers to other Governments	7.8	8.2
	100.0	100.0

One of the outstanding features in the government sector over the past decade has been the very large growth in transfer payments to persons. These expenditures have not only increased in absolute terms but also as a proportion of total government outlays. While in 1953 transfer payments represented 22 per cent of all government expenditures, by 1960 the proportion had risen to almost 26 per cent. The sharpest growth in transfer payments has taken place in the years since 1956. This has been the result, at the federal level, of the increase in benefits payable such as family allowances, old age security and unemployment insurance and, at the combined provincial and municipal levels, of the growth of payments by the provinces under federal-provincial hospital insurance arrangements. In relative terms, the growth at the provincial-municipal level has been, as the following table indicates, rather larger than that at the federal level.

TABLE 28

INDEX OF TRANSFER PAYMENTS TO PERSONS

(Excluding interest on the public debt)

1953=100

—	Federal[1]	Provincial-Municipal	Total
1956	117	131	121
1957	140	148	142
1958	182	181	182
1959	172	232	189
1960	190	273	213

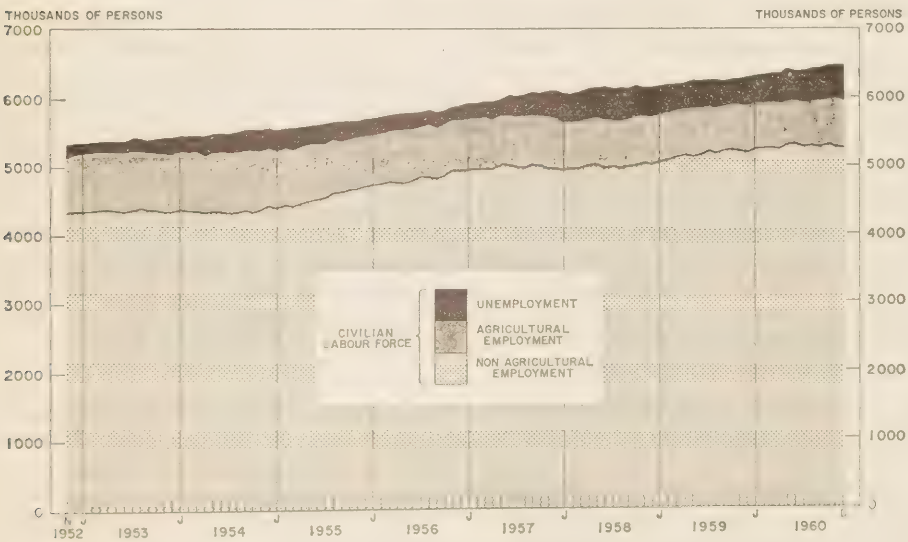
[1] The federal portion of shared-cost programmes with provinces and municipalities is excluded from federal transfer payments to persons but is included in transfer payments to other governments. See Table 26.

EMPLOYMENT AND EARNINGS

Before examining the changes in employment in 1960 it may be helpful to review some of the trends in the labour market which have been observable in recent years. In the past decade a significant change has been taking place in the demand for labour in the Canadian economy, reflecting the various changes in the demand for products and services that have characterized the economy. In particular, the demand for services has steadily increased to the point where the service sector has become the largest employer in the country. In 1949, the goods-producing industries provided employment for 59 per cent of the employed population. By 1960 this proportion had declined to 48 per cent. A similar trend has been taking place in the United States.

Considering these changes in more detail, total employment in the goods-producing sector of the Canadian economy fell by 3 per cent during the period 1949 to 1960. This was the result of a 37 per cent decline in agricultural employment and, to a lesser extent, to a decrease in the number of persons engaged in fishing. In both these primary industries, as a result of increased investment in capital equipment, the decline in employment has been accompanied by increased output. Excluding these two primary industries, the number of people in the goods-producing sector rose by about 18 per cent between 1949 and 1960. In 1949, the goods-producing sector employed two-thirds of all working males and about one-third of all employed females. In 1960, the comparable proportions were 57 per cent and 24 per cent.

THE LABOUR FORCE(1)



(1) ADJUSTED FOR SEASONAL VARIATION

These trends in employment in goods-producing industries have been significant and therefore a comparison of trends in employment in manufacturing industries in both Canada and the United States which appeared in a presentation to the Senate Committee on Manpower and Employment is of considerable interest. The comparison was made between the first half of 1953 and the first half of 1960. Over this period there were small declines in the indexes of manufacturing employment in both countries but the decline in the United States was

about double that in Canada.* In durable goods manufacturing there was a slightly larger decline in employment in Canada than in the United States. This difference arose from a much greater decline in employment in the aircraft, shipbuilding and railroad equipment industries in Canada and was probably related to defence procurement patterns and to timing differences in railroad dieselization programmes in the two countries. In other areas of decline, such as motor vehicles and parts, saw and planing mills and agricultural implements, the fall in employment was much more pronounced in the United States. In the primary iron and steel industry, employment increased in Canada compared with a decline in the United States, and in fabricated and structural steel there was a greater increase in Canada than in the United States.

On the other hand, employment in non-durable goods increased in Canada in contrast to a decline in the United States. This pattern appeared in the manufacture of meat products, beverages, tobacco, and in the petroleum refining industry. Employment in pulp and paper mills increased in both countries, but more rapidly in Canada. There were declines in employment in the manufacture of textile mill products in both countries, the decline in the United States being very much greater.

Turning to longer term developments in the service sector in Canada, all sections of the service industry have become increasingly important as a source of job opportunities as demands for services have increased. In 1960, employment in the service sector was 56 per cent higher than in 1949 and accounted for 52 per cent of total employment. It should be noted that services include business (e. g., accountancy), community (e. g., teaching), personal (e. g., hairdressing), and government service, as well as trade, financial and similar services, and transportation, communication and storage.

Accompanying this trend, there has been a greater participation by women in the labour market since the greater growth in the service sector has, in the main, provided job opportunities particularly suited to women. In 1949, the participation rate (that is, the proportion of any group who work or seek work) of women in the labour force was 24 per cent and in 1953 was still unchanged. By 1960, however, the rate had risen to 28 per cent, and the rise was most notable for married women in the 25-64 age group. In the 45-64 age group, the female participation rate rose remarkably from 17 per cent to 28 per cent from 1953 to 1960. By contrast, the participation rate for men in 1949 was 85 per cent while in 1960 the rate had fallen to 81 per cent. The decline in the male participation rate was concentrated among the very young and the very old, probably reflecting in the first instance greater school attendance and in the second instance, earlier retirements.

In 1960, the total number of men with jobs was 13 per cent higher than in 1949 while total employment for women increased by 49 per cent. In more detail, there was a decline of 3 per cent in male employment in the goods-producing sector (including agriculture) and no change in the number of females. On the other hand, employment in the service industries was 45 per cent higher for men and 76 per cent higher for women.

The continuation of this trend is evident when averages for the year 1960 are compared with those of 1959. The average number of persons with jobs in 1960 rose by 100,000 or 1.7 per cent. The increase in employment in 1960 was entirely due to increased opportunities for work in the service sector. The

* In Canada the index of manufacturing employment measures employment in establishments having fifteen or more employees. Estimates of employment in all manufacturing establishments in Canada, including those employing less than fifteen workers, suggest that, over the period, total employment in manufacturing may have increased.

TABLE 29

THE CIVILIAN LABOUR FORCE

Annual Averages

(Thousands of Persons)

—	1957	1958	1959	Prelim. 1960
Civilian Labour Force	6,003	6,127	6,228	6,403
Male	4,570	4,634	4,679	4,750
Female	1,433	1,493	1,549	1,653
Non-Agricultural	5,252	5,402	5,525	5,714
Agricultural	751	725	703	689
Unemployed	278	432	373	448
Persons with jobs	5,725	5,695	5,856	5,955
In Non-Agricultural Industries	4,981	4,983	5,163	5,280
Paid Workers	4,460	4,481	4,637	4,747
Employers, own account workers and unpaid family workers	521	502	526	533
In Agriculture	744	712	692	675
Paid Workers	96	97	109	110
Employers, own account workers and unpaid family workers	648	615	583	565

service sector provided an additional 157,000 jobs in 1960 which more than offset a decline in goods-producing employment of 57,000 persons.

In the goods-producing sector in 1960, employment declined in agriculture, manufacturing, construction and public utilities, these reductions being only partially offset by small gains in the numbers employed in forestry, fishing and mining. It should be noted that even though employment declined in agriculture, manufacturing and public utilities, output increased. In the service sector, all groups except transportation, communication and storage added to the number of their employees. The greatest increase occurred in the sections of the service industry comprising business, community, personal and government services, where employment rose by 115,000 persons or 8.5 per cent.

Although employment in 1960 increased by 100,000, there was an even larger increase in the labour force. The increase was 175,000 or 2.8 per cent. This compares with increases of 1.6 per cent in 1959 and of 2.1 per cent in 1958. This more rapid increase in the labour force in 1960 was largely a matter of an increase in the participation rate of women. In 1960, it is estimated that the number of women in the labour market rose by 6.7 per cent while the increase in the number of men was only 1.5 per cent. In earlier years of the decade, immigration had been an important element in the growth of the labour force. In 1960, net immigration fell to about 30,000 persons, compared with an annual average of just over 100,000 for the decade.

The larger growth in the labour force as compared with the growth in employment was reflected in an increase in unemployment. For 1960 as a whole, an average of 448,000 persons were out of work, as compared with 373,000 in 1959 and 432,000 in 1958. Considering the sexes separately, there were 388,000 men without work in 1960 compared with 326,000 in 1959. At the same time, there were some 60,000 women unemployed as compared with 47,000 in the preceding year. The total unemployment ratio rose to an average of 7.0 per cent in 1960

compared with 6.0 per cent in 1959 and 7.1 per cent in 1958. The unemployment ratio for men rose from 7.0 per cent in 1959 to 8.2 per cent in 1960, while that for women rose to 3.6 per cent as compared with 3.0 per cent in the previous year.

A survey of registered applicants for employment with the National Employment Service carried out for the Senate Committee on Manpower and Employment revealed some significant characteristics of this group. It showed that there was a concentration of men seeking work in manufacturing and construction activity. The majority of women on the other hand sought employment in offices, stores and restaurants, though a sizeable number of women registered for jobs had been employed in manufacturing. The survey further revealed that 40 per cent of the total number of persons registered for employment possessed no specialized training or qualifications. That is to say, a substantial proportion of Canada's unemployed at the present time are unskilled or only semi-skilled. Employment opportunities for such people are necessarily limited in an economy increasingly calling for skilled workers. In this connection, it is apparent that in the decade of the 1950's Canada relied to a considerable degree on immigrants to meet her growing needs for skilled manpower. Over the period 1953–1959, net immigration accounted for 110,000 craft and technical workers. By comparison, the number of graduates from publicly-operated high school and post-high school technical courses in Canada accounted for only 21,000 technical workers. Of course, in addition to those graduates from Canadian technical schools, a considerable amount of technical training was received "on the job".

The same survey also pointed to the special problems of the 14 to 19 year-olds in the labour market. Such young people represented about 10 per cent of the total numbers registered for employment. Although the participation rate in the labour force for this group has declined during the past ten years, the ratio of unemployment of this group has been double the ratio for all age groups. For example, the participation rate for young people of both sexes between the ages of 14 and 19 fell from 47 per cent in 1949 to 38 per cent in 1960 while the unemployment ratio rose from 5.9 per cent in 1949 to 13.0 per cent in 1960. The unemployment ratio in 1960 was 16.3 per cent for males and 8.6 per cent for females.

It is apparent that the lack of adequate education or training among the unemployed in this lower age group provides an explanation of their difficulty in obtaining employment. Only 18.5 per cent of the total had completed high school or better, 47.2 per cent had had some high school education while as many as 34.3 per cent had finished only their primary school education, or even less. Similarly, only 11.5 per cent of the group were fully trained or qualified occupationally, 33.7 per cent were partially trained or qualified while 54.8 per cent had no technical training or qualifications whatsoever. Both academically and technically the girls in the group had higher educational levels than the boys.

Total labour income in 1960 increased by 4.2 per cent, compared with an increase of 7.5 per cent in 1959. Higher rates of pay and higher average levels of employment in 1960 contributed to the rise in total payments for salaries and wages. The number of paid workers in 1960 was 2.3 per cent higher than in 1959. The comparable increase in 1959 was 3.7 per cent. In manufacturing, average hourly earnings rose by 3.5 per cent, about the same as in 1959, while the average number of hours worked per week declined by nearly one per cent as compared with a rise of slightly more than one per cent in 1959. Per capita annual earnings in 1960 showed an increase of $70.00 or 1.9 per cent, compared with an increase of $133.00 or 3.7 per cent in 1959. After allowing for a small increase in the cost of living in 1960, there was a slight gain in real earnings per capita.

All regions and all major industrial groups, except mining and construction, shared in the increase in total salary and wage payments. In the service sector, in line with improved employment opportunities, the growth in labour income as a whole was greater than in the goods-producing industries. Wages and salaries paid out in trade, transportation, storage and communication, government, finance and related groups rose by 5.7 per cent in 1960 compared with a gain of 8.1 per cent in 1959, and accounted for about three-quarters of the increase in total wage and salary payments. Earnings in the goods-producing industries rose by 1.9 per cent compared with 6.5 per cent in the previous year. Wages and salaries in the primary industries rose by 3.8 per cent, in manufacturing by 1.9 per cent and in public utilities by 3.4 per cent. Total wages and salaries in construction were at the same level as in 1959.

PRICE TRENDS

Prices of goods and services produced in Canada rose in the aggregate about 1½ per cent in 1960, compared with 1959. This was the smallest year-to-year increase in prices since 1955 and compares with an average annual price rise of nearly 2½ per cent from the years 1954 to 1960. The increase, 1959 to 1960, was mild for consumer goods and for exports and imports. The gains were somewhat larger for services, capital goods and government expenditure.

The following table shows changes in price for the components of Gross National Expenditure:

TABLE 30

PERCENTAGE PRICE CHANGES

—	1959/1958	1960/1959
Consumer expenditure	+1.3	+1.2
Goods	*+0.5*	*+0.6*
Non-durable	*+0.3*	*+0.8*
Durable	*+1.7*	*−0.4*
Services	*+2.8*	*+2.3*
Government expenditure[1]	+3.0	+3.5
Business gross fixed capital formation[1]	+2.9	+2.2
Exports of goods and services	+1.8	+0.7
Imports of goods and services	−0.2	+1.7
Gross National Expenditure	**+2.4**	**+1.7**

[1] Price indexes of these sectors are measured mainly by elements entering into costs (materials and labour purchased) rather than final selling prices, and generally it has not been possible to allow for changes in productivity. Over short periods of time, these cost indexes are not likely to vary to any extent from indexes of actual selling prices. Over longer periods, it may be that these cost deflators overstate price increases.

The consumer price index for 1960 averaged 128.0 compared with 126.5 in 1959, an increase of 1.2 per cent. The increase in consumer prices in 1960 compares with increases of 1.1 per cent in 1959 and 2.6 per cent in 1958.

The consumer price index fell in the first quarter of 1960 from 127.5 in January to 126.9 in March. In April the index came back to the January level where it remained, with minor fluctuations, until August when it rose to 127.9. Thereafter, successive monthly increases associated mainly with seasonal movements in food prices raised the index to 129.6 for November and December.

The moderate increase in the consumer price index for 1960 was mainly due to an increase in the services component. The index for total services rose 2.2 per cent while the index for total goods increased less than one per cent. An important element in the rise in the service index was a 2.5 per cent increase in

health care and a 1.9 per cent increase in shelter costs. Prices of durable goods declined slightly, and all other components of the commodities index showed only minor increases.

In recent years, consumer prices in Canada have risen less than in most industrialized countries of the world.

TABLE 31

COST OF LIVING 1960

—	1953=100
Switzerland	108
Belgium—Luxembourg	110
Canada	111
United States	111
Germany	114
Japan	114
Italy	115
Austria	117
Australia	120
United Kingdom	121
Netherlands	121
Norway	121
Denmark	122
New Zealand	124
Sweden	124
France	134

Source: UN Monthly Bulletin of Statistics, March 1961.

In Canada, most of the increase in consumer prices which occurred since the war took place in the early post-war period when removal of wartime controls and subsidies and the special situation of the Korean war caused prices to rise rapidly. Since that time, the period of the most rapid increases occurred about the time of the inflationary resource boom of the mid 1950's.

TABLE 32

PERCENTAGE CHANGES IN CONSUMER PRICES

Period	Total Percentage Change over the Period
1946—1948	+25.1
1948—1950	+ 6.1
1950—1952	+13.2
1952—1954	−0.3
1954—1956	+2.5
1956—1958	+5.9
1958—1960	+2.3

The trend of consumer prices in 1960 with its greater increases for services than for commodities is typical of developments over the past ten years. The recently revised consumer price index, which provides additional information on the various classifications, shows that between 1949 and 1960 the cost of living increased by 28 per cent. The index for commodities, however, was up only 19 per cent with most component groups showing about the same rate of increase. The index for services, on the other hand, showed an increase of 53 per cent. Excluding shelter, the cost of other services rose by 59 per cent over the ten-year period.

The changes in prices over the last decade can be seen in the following table.

TABLE 33

PERCENTAGE CHANGES IN CONSUMER PRICES

—	1960 / 1949
Total goods and services	+28.4
Commodities	+19.4
Commodities excluding food	+17.7
Food	+22.6
Durable goods	+18.2
Household equipment	+16.0
Transportation equipment	+25.2
Non-durable goods	+19.5
Non-durable goods excluding food	+17.6
Textiles	+6.0
Other non-durable goods	+20.9
Services	+53.4
Services excluding shelter	+59.4

Although services represent only about one-quarter of total consumer spending, the much more rapid increase in service prices has accounted for nearly one-half of the total rise in consumer prices since 1949.

Since 1949, the greatest increases in Canadian prices have taken place in services and in capital outlays. The increase in service costs is due in part to the increasing demand for services and in part to the difficulties involved in raising technological productivity in many service industries. The increase in the prices of capital goods has also reflected conditions of strong demand. To a lesser degree, as has been noted, the price statistics probably overstate the extent of price increase for capital goods.

By contrast, there have been lesser increases in wholesale prices since 1949, and an actual decline in the total index from the peak in 1951. In contrast to retail prices, the wholesale price index is influenced much more by the movements in world commodity prices and much less by elements of service. Movements in wholesale prices over the past decade have reflected the greater availability of raw materials and industrial commodities. The general index of wholesale prices has been unchanged since the beginning of 1959.

TABLE 34

INDEXES OF SELECTED WHOLESALE PRICES

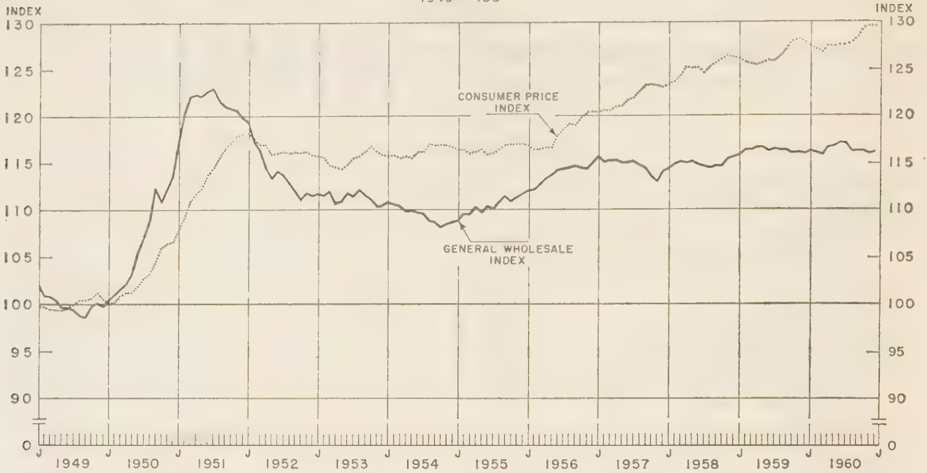
1949=100

—	1949	1951	1959	1960
Raw and partly manufactured goods	100.0	120.7	107.0	106.2
Fully and chiefly manufactured goods	100.0	121.7	121.3	121.5
Industrial materials	100.0	135.8	110.2	110.3
Iron and non-ferrous metals and products	100.0	125.4	140.0	141.2
Total Index of General Wholesale Prices	**100.0**	**121.1**	**116.3**	**116.3**

NOTE: Indexes have been mechanically converted from a 1935–1939 base.

CANADIAN WHOLESALE AND CONSUMER PRICE INDEXES

1949 = 100



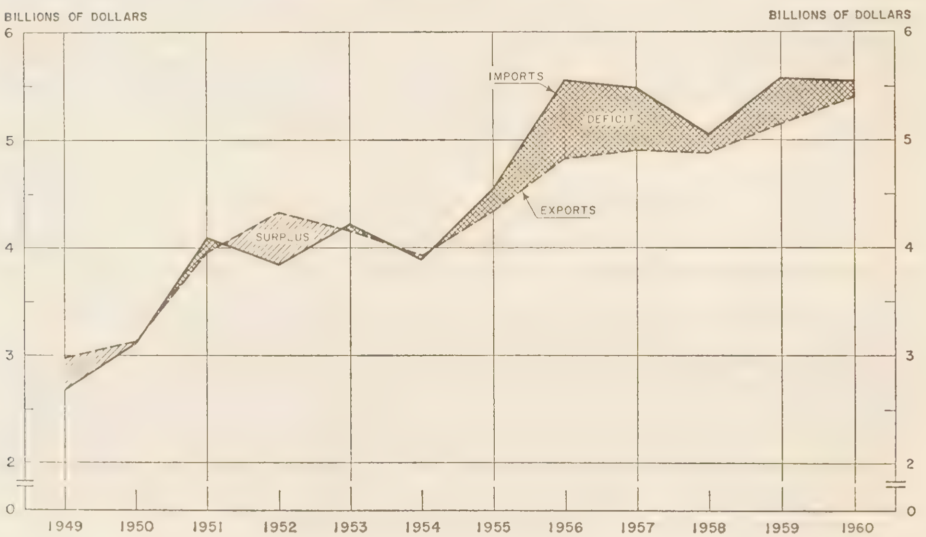
MECHANICALLY CONVERTED TO COMMON BASE

BALANCE OF INTERNATIONAL PAYMENTS

Canada's international trade in 1960 reflected the divergent trends in economic activity in North America and other parts of the world. The industrial countries outside North America enjoyed a vigorous rate of economic growth in 1960 and Canadian exports to the United Kingdom, western Europe, Japan and some other overseas countries increased sharply. Exports to the United States declined.

Total Canadian merchandise exports rose by nearly 5 per cent in 1960. On the other hand, merchandise imports declined fractionally compared with an increase of about 10 per cent in the preceding year. Consequently, the trade

IMPORTS AND EXPORTS OF MERCHANDISE



deficit in 1960 of $148 million was scarcely one-third as large as the $423 million deficit incurred in 1959. This improvement in the balance arising from commodity trade was more than sufficient to offset a further increase in the deficit on non-merchandise transactions which rose from $1,071 million in 1959 to $1,122 million in 1960. As a result, the total current account deficit declined from $1,494 million in 1959 to $1,270 million in 1960, a decline of $224 million, or 15 per cent.

The value of merchandise exports in 1960 amounted to $5,400 million as compared with $5,149 million in the previous year. Increases in commodity exports occurred in most of the major categories, with agricultural products constituting the principal exception. In agriculture, declines were fairly general. The most significant gains occurred in exports of copper, aluminum, newsprint, nickel, lumber and chemicals. Considerable increases also took place in exports of asbestos, crude petroleum, rolling mill products, non-farm machinery, woodpulp, oil seeds and zinc. There were sizeable declines in exports of uranium, farm implements, wheat and other grains and in fishery products.

TABLE 35

INTERNATIONAL PAYMENTS: CURRENT ACCOUNT

—	1957	1958	1959	1960
	(Millions of dollars)			
Current Receipts—				
Merchandise exports (adjusted)[1]	4,894	4,887	5,149	5,400
Gold available for export	147	160	148	161
Travel expenditures	363	349	391	417
Interest and dividends	154	168	183	175
Freight and shipping	445	401	420	415
Inheritances and immigrants' funds	124	97	109	102
Other current receipts	388	375	385	389
Total Current Receipts	**6,515**	**6,437**	**6,785**	**7,059**
Current Payments—				
Merchandise imports (adjusted)	5,488	5,066	5,572	5,548
Travel expenditures	525	542	598	632
Interest and dividends	589	612	657	655
Freight and shipping	515	460	525	526
Inheritances and emigrants' funds	157	145	164	181
Other current payments	696	743	763	787
Total Current Payments	**7,970**	**7,568**	**8,279**	**8,329**
Balance on Merchandise Trade	−594	−179	−423	−148
Balance on other Transactions	−861	−952	−1,071	−1,122
Current Account Balance	**−1,455**	**−1,131**	**−1,494**	**−1,270**

[1] Aid to NATO countries under Defense Appropriation Act has been excluded.

Estimated Geographical Distribution of the Net Balance on Current Account

—	1957	1958	1959	Prelim. 1960
	(Millions of Dollars)			
Between Canada and—				
United States	−1,579	−1,176	−1,241	−1,377
United Kingdom	+118	+104	+16	+152
Rest of the Sterling Area	+4	+69	+2	+44
Other OEEC Countries	+67	+41	−110	−12
Other Countries	−65	−169	−161	−77
All Countries	**−1,455**	**−1,131**	**−1,494**	**−1,270**

Turning to consider a rather longer period of recent history, it is clear that considerable changes in Canada's export trade have occurred over the last seven years. Since 1953, exports from Canada's resource industries have increased substantially and the capacity of these industries to meet the growing world demand has greatly expanded. The expansion of exports of the other fabricated products industries was on a somewhat smaller scale, though the expansion in chemical exports was impressive. Exports of farm products were unusually high during the period 1951–53. Since then they have been somewhat lower (but higher than in the immediate postwar period). The value of total domestic exports rose by 28 per cent during this period. Considerable diversification in export trade has taken place and is illustrated by the rising importance of a number of export commodities. The table which follows shows the changes among the important commodities.

TABLE 36

EXPORTS OF SELECTED ITEMS

1953 and 1960

—	1953	1960	Actual Change in $ millions 1960/1953	% 1960/1953
	(Millions of dollars)			
Farm Products—Total	**1,135.7**	**880.7**	**−255.0**	**−22.5**
Wheat	567.9	410.5	−157.4	−27.7
Wheat flour	102.2	62.2	−40.0	−39.1
Barley	136.7	51.4	−85.3	−62.4
Oats	60.4	5.8	−54.6	−90.4
Oilseeds	15.0	68.3	+53.3	+355.3
Animal products	137.1	182.5	+45.4	+33.1
Other	116.4	100.0	−16.4	−14.1
Fishery Products—Total	**113.8**	**137.4**	**+23.6**	**+20.7**
Forest Products—Total	**1,292.2**	**1,579.6**	**+287.4**	**+22.2**
Lumber	283.2	346.3	+63.1	+22.3
Wood pulp	248.7	325.1	+76.4	+30.7
Newsprint	619.0	757.9	+138.9	+22.4
Other	141.3	150.3	+9.0	+6.4
Primary and Semi-Processed Metals and Minerals—Total	**905.7**	**1,825.1**	**+919.4**	**+101.5**
Iron ore	30.8	155.5	+124.7	+404.9
Primary and semi-finished steel	70.4	156.8	+86.4	+122.7
Aluminum	177.9	269.4	+91.5	+51.4
Copper	124.7	223.9	+99.2	+79.6
Nickel	162.5	258.3	+95.8	+59.0
Zinc	57.7	63.7	+6.0	+10.4
Asbestos	84.6	121.1	+36.5	+43.1
Uranium ores and concentrates	n.a.	263.5	indeterminate	
Crude petroleum	6.2	94.5	+88.3	+1,424.2
Natural gas	....	18.1	+18.1	indeterminate
Other	190.9	200.3	+9.4	+4.9
Chemicals—Total	**137.9**	**237.8**	**+99.9**	**+72.4**
Other Manufactured and Miscellaneous Goods—Total	**532.2**	**605.8**	**+73.6**	**+13.8**
Whiskey, spirits and beer	66.2	83.7	+17.5	+26.4
Farm machinery and parts	74.3	85.4	+11.1	+14.9
Other machinery and parts	37.3	67.1	+29.8	+79.9
Trucks and automobiles	58.4	28.1	−30.3	−51.9
Truck and automobile parts	17.0	23.8	+6.8	+40.0
Electrical apparatus	37.7	47.3	+9.6	+25.5
Other	241.3	270.4	+29.1	+12.1
Total Domestic Exports	**4,117.5**	**5,266.4**	**+1,148.9**	**+27.9**

n.a. = not available.

The value of merchandise imports in 1960 was $5,548 million, fractionally below the $5,572 million value in 1959. This is in sharp contrast with the strong growth in imports which has been characteristic of the past decade as a whole. The relative stability in total merchandise imports between 1959 and 1960 also contrasts with the increase in the Gross National Product; the ratio of imports of goods to G.N.P. was among the lowest in the postwar period. In general, increases and decreases in all categories of imports were small. The largest declines occurred in imports of petroleum products, machinery and rolling-mill products. The greatest increases took place in aircraft and automobile and parts.

As indicated above, there were some significant changes in Canada's pattern of trade in 1960. Exports to the United States declined by $150 million, nearly 5 per cent, while sales to all other countries grew by $401 million, or 20 per cent. On the other hand, imports were slightly lower, both from the United States and from all other countries taken as a group.

Canada's trade with countries other than the United States also displayed a changing pattern. Sales to the United Kingdom rose by $143 million while imports from that country were $9 million lower. Exports to other Commonwealth countries grew by $53 million, and imports by $20 million.

A major increase occurred in exports to western Europe where shipments increased by $144 million, or by one-third. Exports to "All Other Countries" rose by $57 million of which $38 million was to Japan. Imports from "All Other Countries" declined by $41 million.

TABLE 37

PERCENTAGE CHANGE IN MERCHANDISE TRADE
1960/1959

—	Exports	Imports
Between Canada and—		
United States	−4.7	−0.2
United Kingdom	+18.3	−1.5
Rest of the Sterling Area	+18.3	+7.6
Other O.E.E.C. Countries	+33.0	+4.1
All Other Countries	+12.9	−6.8
All Countries	**+4.9**	**−0.4**

As a result of these developments, there was an increase in the trade deficit with the United States, an increase in the trade surplus with the Commonwealth, including the United Kingdom, and the re-emergence of a substantial trade surplus with all other countries.

The proportion of total Canadian exports going to the United States declined in 1960 while all other areas increased their share. The proportions of total imports coming from the United States and the United Kingdom were almost unchanged from 1959. The rest of the sterling area and other O.E.E.C. countries increased their share of the Canadian market while the share of "All Other Countries" declined.

As mentioned earlier, the deficit on non-merchandise transactions totalled $1,122 million in 1960. This was an increase of $51 million, or 4.8 per cent, and was the smallest relative increase recorded since 1952. Over the last eight years, the average annual increase has been about 20 per cent.

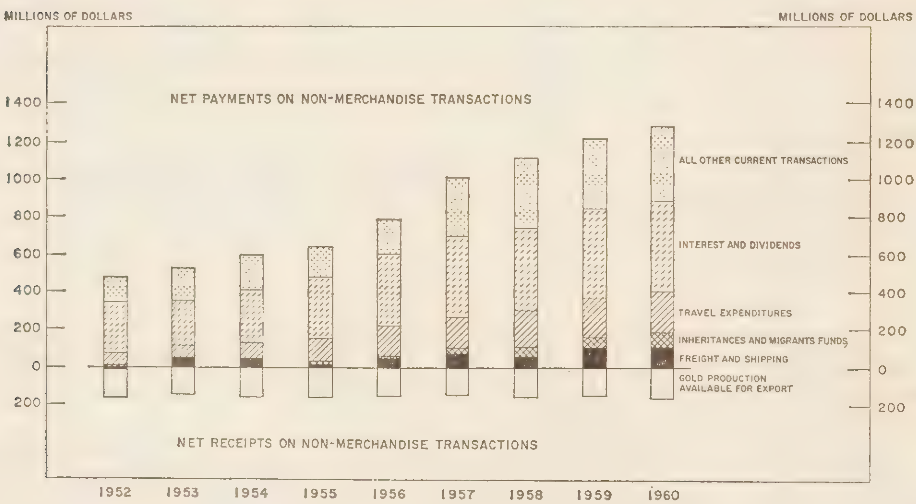
TABLE 38

MERCHANDISE TRADE: PERCENTAGE DISTRIBUTION

—	Exports		Imports	
	1959	1960	1959	1960
United States	61.9	56.3	66.9	67.0
United Kingdom	15.2	17.1	11.1	11.0
Rest of the Sterling Area	5.6	6.3	4.7	5.1
Other O.E.E.C. Countries	8.7	11.1	6.5	6.8
All Other Countries	8.6	9.2	10.8	10.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

All major components of the non-merchandise account, except gold production available for export, shared in the growth of the deficit on non-merchandise trade. Larger deficits occurred in freight and shipping services and migrants' funds and inheritances resulting from a decline in receipts combined with an increase in payments on such accounts. There was a greater growth in payments than in receipts for foreign travel and in the "miscellaneous" account (which includes payments for a variety of business services). There was also a greater reduction in receipts than in payments on income account arising out of the remittance of interest and dividends. All of these changes contributed to the further growth in the deficit on non-merchandise trade.

BALANCE ON NON-MERCHANDISE TRANSACTIONS



Examining the non-merchandise items in more detail, the deficit on income account in 1960 amounted to $480 million, or 43 per cent of the total deficit on non-merchandise transactions. Interest receipts from abroad rose, but dividend receipts declined. Payments of interest abroad were higher due mainly to sizeable net sales of provincial, municipal and corporate bonds in the United States in 1959 and the first half of 1960. On the other hand, dividend payments abroad declined.

The deficit arising from government transactions other than official contributions rose by a substantial amount. This was the result of a decline in external receipts, due partly to a lower level of United States government defence expenditures in Canada, and to an increase in external payments, mainly attributable to larger Canadian defence expenditures abroad. Official contributions declined, due mainly to the absence in 1960 of relief wheat shipments to countries in South-East Asia which were sizeable in the two previous years.

Canada's international balance of payments includes very substantial capital transfers of many kinds and moving in both directions. Net capital transfers, including changes in private and official holdings of foreign exchange, are necessarily equal to the balance on current account. In recent years, the net capital movement has been strongly inward. Such balance has been achieved in recent years with relatively little change in official holdings of foreign exchange, largely through the fluctuations in the exchange value of the Canadian dollar in response to changes in the supply of and demand for currencies entering into Canada's external transactions.

The large net inflows of capital from abroad have been associated with the high rate of capital investment in Canada and reflect the favourable investment opportunities in this country, certain relative tax advantages, as well as comparative interest rates prevailing in Canada and abroad.

During the past five years, these inflows have varied between $1.1 billion and $1.5 billion annually. Although there have at times been large inflows of short-term capital, the major inflow has been of a long-term nature. Some of the long-term capital represents portfolio investment by foreigners, in the form of stocks and bonds and presumably reflects favourable rates of return, current and prospective, on this type of investment. The other important form of long-term capital inflow has been represented by direct investment in foreign-controlled enterprises. Direct investment may take the form of the establishment of new enterprises and part of the new plant facilities may be imported from abroad. Alternatively, it may be in the form of the acquisition of existing Canadian enterprises, thus freeing the financial resources of the previous owners. In many instances, direct investments are undertaken to provide commodities for general export or for the direct use of the non-resident parent company and thus lead to increased exports in subsequent years. In other cases, they are designed to exploit the domestic Canadian market and thus displace imports.

Such cases are strikingly illustrated in the example of petroleum, natural gas and mineral production where a large share of foreign direct investment has been placed. Exports of crude petroleum and iron-ore have increased dramatically since 1953. Imports of petroleum products have declined over this period while the growth of iron-ore imports has not been as large as the growth in Canadian consumption. Other mining products developed by external capital such as copper, nickel, aluminum and asbestos have also registered sharp increases in exports.

Portfolio investment from abroad is of a financial nature and is not connected directly with any compensating inflows of goods and services. Most short-term capital movements are also of a financial nature. The normal method by which the net inflow of financial capital is translated into a real movement of goods and services is through the operation of the exchange rate. Movements in the exchange rate may, under certain circumstances, induce changes in the flows of capital. Considered by themselves, however, inflows of financial capital tend to raise or maintain the exchange value of the Canadian currency. The high level of the Canadian dollar tends, in turn, to reduce the export and to increase the import of goods and services by an amount equivalent to the net inflow of capital.

Inflows of direct investment funds, on the other hand, sometimes take the form of the direct provision of goods and services. For example, a direct foreign investment in a mining property may involve the importation of machinery and technical services. To the extent that this occurs, the additional imports matching the capital imports come in without involving the exchange market or the exchange rate. But more frequently, the inflow of direct investment is not directly tied to the importation of goods and services, and the importation of a corresponding amount of goods and services takes place indirectly, as in the case of the inflow of other financial capital, through the mechanism of the exchange rate.

The net inflow of long-term capital, in the form of direct investment, portfolio stocks and bonds and official loans and other long-term investments, amounted to about $875 million in 1960, compared with $1,088 million in 1959.

Within the total of long-term capital, there was a change in composition in 1960. For the first time since 1956, when Canadian provincial, municipal and corporate new security issues sold abroad reached very large proportions, direct investment re-emerged as the principal source of long-term capital inflows. Net inflows for direct investment showed a substantial increase while net inflows from security transactions were less than one-third the average inflow for the preceding four years. Consequently, direct investment in 1960 accounted for about 69 per cent of the total long-term movement compared with 43 per cent in 1959 and about 37 per cent in the preceding three years.

About 85 per cent of the net long-term capital inflow during 1960 came from the United States compared with 79 per cent in 1959. The United Kingdom's share fell from 9 per cent to 7 per cent; withdrawals of portfolio capital more

TABLE 39

INTERNATIONAL PAYMENTS: CAPITAL MOVEMENTS

—	1957	1958	1959	Prelim. 1960
	(Millions of dollars)			
Direct investment in Canada	+514	+420	+550	+690
Direct investment abroad	−68	−48	−80	−85
Canadian securities—				
Trade in outstanding bonds and debentures	−45	.....	+91	+7
Trade in outstanding common and preference stocks	+137	+88	+110	+48
New issues	+798	+677	+707	+397
Retirements	−133	−158	−258	−225
Foreign securities	+6	+3	−33	−9
Loans by Gov't of Canada—Drawings	.....	−34	−1	.....
Repayments	+50	+64	+34	+32
Subscriptions to IMF, IFC and IBRD in gold and US dollars	.....	.....	−59	−3
Change in Canadian dollar holdings of foreigners	−35	+106	+13	+115
Change in official holdings of gold and foreign exchange (increase, −)	+105	−109	+70	+39
Other capital movements	+126	+122	+350	+264
Net capital movement	**+1,455**	**+1,131**	**+1,494**	**+1,270**

than offset an increase in direct investment inflows. The share originating in other overseas countries also fell, from 12 per cent to 8 per cent, with direct investment being higher and inflows from security transactions lower.

The movement of foreign capital into Canada for direct investment in foreign-controlled enterprises during 1960 totalled $690 million, $140 million higher than in 1959 and $100 million above the largest figure recorded previously. The petroleum and natural gas industry attracted the largest part of the net inflow for direct investment, probably more than one-third. Direct investment in mining concerns, especially iron-ore projects and ancillary facilities, showed an even greater growth, and also accounted for nearly one-third of total direct investment inflows. The largest part of the movement occurred in the early part of the year.

The net capital import through security transactions amounted to $218 million in 1960. This movement was much smaller than in the years 1956 to 1959 (when it ranged between $610 million and $763 million) but was larger than in all but two of the ten preceding years. As between the various types of security transactions, there were substantial reductions both in the sale of new Canadian issues to non-residents and in the net sale abroad of outstanding Canadian stocks and bonds. At the same time, the redemptions of foreign-held Canadian securities were somewhat below the level in 1959. As with direct investment, the largest part of the net inward movement in security transactions occurred early in the year. In the final quarter of the year, the movement was outward.

A large part of the smaller increase in portfolio investment was accounted for by a sharp drop in net sales to non-residents of new provincial government issues, which fell from $293 million in 1959 to $55 million in 1960. Total funds raised by provincial governments in both years, including bank loans, were almost unchanged, but in 1960 a far greater proportion was raised in Canada. This development may be attributable in part to the ability of the provinces to borrow at declining rates of interest in Canada during the first three quarters of 1960, at a time when United States interest rates were comparatively stable. In part, the heavier borrowing in Canada may have reflected a greater concern on the part of borrowers as to the exchange risks on foreign borrowings. The budget speeches of the Minister of Finance in March and December, 1960, stressed to borrowers the risks involved in undertaking commitments expressed in foreign currencies.

The inflow of long-term capital into Canada for 1960 was less than it had been in 1959, and fell during the course of the year. This decline in capital inflow relaxed the upward pressure on the exchange value of the Canadian dollar. The general downward movement in the exchange rate was to some extent offset by shorter-term capital movements particularly in the fourth quarter.

A sharp rise in holdings by foreigners of Canadian dollar balances and short-term paper occurred in the latter half of the year with increases of $45 million and $75 million in the third and fourth quarters respectively; the inflow for the year as a whole was $115 million. Larger holdings by residents of the United States and overseas countries other than the United Kingdom accounted for most of the increase. In 1960, non-resident holdings of Canadian treasury bills rose by $56 million. In explanation, it may be noted that in the latter half of 1960 treasury bill yields in Canada were considerably above those of the United States even after providing for the cost of exchange "hedging". Incidentally, the holdings of Canadian dollars and short-term paper by foreigners have risen in each of the past three years and now total over $600 million, including $120 million of treasury bills.

TABLE 40

INTERNATIONAL CAPITAL MOVEMENTS, BY QUARTERS

—	1960 I	1960 II	1960 III	1960 IV	1960 Total
	(Millions of dollars)				
Net inflow for direct investment	+195	+150	+145	+115	+605
Net inflow for portfolio investment	+206	+91	+6	−85	+218
Sub-total	*+401*	*+241*	*+151*	*+30*	*+823*
Official holdings of gold and foreign exchange (increase−)	+11	+82	−40	−14	+39
Government loans and subscriptions	....	+7	−1	+23	+29
Other capital movements (including changes in Canadian dollar holdings of foreigners)	−84	+156	+28	+279	+379
Total	**+328**	**+486**	**+138**	**+318**	**+1,270**

The inflow of "all other" capital movements in 1960 totalled $264 million, an amount considerably smaller than in 1959. However, $204 million of this inflow occurred in the fourth quarter, representing a movement of almost record proportions.

It may be assumed that the sharp inflow of short-term capital in the fourth quarter of 1960 was associated with the existence of more attractive short-term interest rates in Canada relative to the United States, and with relatively less attractive rates in London. Some short-term capital may have entered Canada from countries suffering political disturbances. The role of expectations is difficult to gauge, but shifts in expectations about movements in the rate were probably a factor in the fourth quarter.

To complete the description of capital movements in 1960, there was a capital outflow of $3 million representing Canada's foreign exchange subscription to international financial organizations and capital inflows of $32 million resulting from repayments on intergovernmental loans. There was also a slight reduction in official holdings of gold and foreign exchange of $39 million. At December 31, 1960, Canada's official exchange reserves amounted to U.S. $1,829 million compared with U.S. $1,869 million at the end of 1959.

TABLE 41

CANADA'S OFFICIAL HOLDINGS OF GOLD AND U.S. DOLLARS AS AT DECEMBER 31

—	1957	1958	1959	1960
	(Millions of U.S. Dollars)			
Exchange Fund Account and Bank of Canada—				
Gold	1,100.3	1,078.1	959.6	885.3
U.S. Dollars	697.5	800.0	879.4	914.9
Other Government of Canada Accounts	30.5	61.0	30.2	29.0
Total Gold and U.S. Dollars	**1,828.3**	**1,939.1**	**1,869.2**	**1,829.2**

The exchange value of the Canadian dollar declined generally throughout 1960 apart from an increase at mid-year. In December it reached its lowest point since March, 1956. The average rate of exchange for the United States dollar, in terms of the Canadian dollar, at its low point in March, 1960 was

94.94. In December, 1960 it rose to a high of 99.81 and closed the year at 99.66. For 1960 as a whole, the average noon rate was 96.97 compared with 95.90 in 1959.

FINANCIAL DEVELOPMENTS

The financial environment in the western world is considerably different now from what it was a decade ago. To begin with, there has been a gradual reduction in the degree of financial liquidity accumulated during and just after World War II. At the same time, demands for capital by the underdeveloped countries of the world have continued to grow. The heavy capital requirements involved in replacing the social and industrial structure of western Europe had scarcely begun to diminish when the impetus of European integration took its place. A somewhat tardy recognition of the dangers of inflation related to the period of post-war material shortages invoked a rediscovery of monetary policy as an effective economic weapon. More recently, the removal of some of the barriers to the international movement of capital among the more industrialized countries of the western world has encouraged an increasing flow of funds across political boundaries to take advantage of investment opportunities wherever they might be found.

For a variety of reasons, these among them, interest rates in western countries have tended to rise: the spread between rates in different countries has narrowed, through a process of "evening up" rather than "evening down". The following table illustrates this development:

TABLE 42

YIELDS ON LONG-TERM GOVERNMENT BONDS

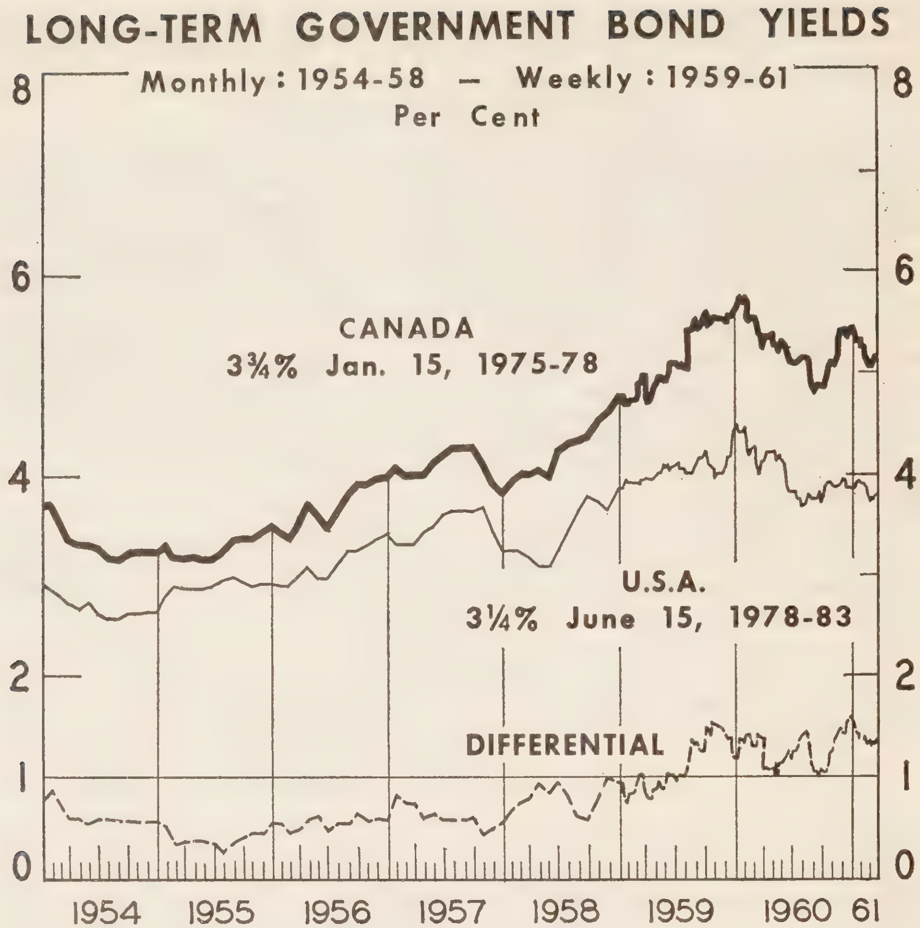
—	1950	1953	1954	1955	1956	1957	1958	1959	1960
Canada	2.78	3.68	3.14	3.23	3.58	4.10	4.22	4.86	5.05
U.S.A.	2.32	2.92	2.52	2.80	3.06	3.47	3.43	4.07	4.02
U.K.	3.54	4.08	3.75	4.17	4.73	4.98	4.98	4.82	5.43
Germany	..	..	..	..	6.2	6.6	6.3	5.9	6.5
France	6.52	5.41	5.38	5.21	5.28	5.92	5.68	5.27	5.16
Netherlands	3.28	3.43	3.31	3.26	3.84	4.58	4.32	4.12	4.21
Belgium	4.42	4.40	4.27	4.16	4.21	4.69	4.57	4.27	4.30
Italy	5.73	6.06	6.06	6.20	6.74	6.81	6.61	5.43	5.24
Sweden	3.11	3.27	3.24	3.70	3.75	4.33	4.33	4.28	4.56
Australia	3.14	4.48	4.46	4.52	5.03	5.02	4.97	4.91	5.00

.. not available.

Source: International Financial Statistics, February, 1961.

The growing interdependence of world capital markets has made it increasingly difficult for individual countries to pursue completely independent fiscal and monetary policies, devised to suit purely internal domestic situations. For countries with fixed exchange rates the decline (as in the case of the U.S.) or accretion (as in the case of Germany) of exchange reserves requires the adaptation of national policies to the international environment.

In the case of Canada, our floating exchange rate cushions the pressure of external forces, but does not permit us to avoid adjusting our economy to the rest of the world. Movements in capital still take place in response to investment opportunities revealed in part in interest rate differentials, although they may display their force more through movements in the exchange rate than through changes in the level of exchange reserves.



Turning now to developments in Canada in 1960, the total effective demand for new capital by all categories of borrowers, measured by the amounts they were able to raise through the banking system and on the capital markets, was down sharply from the level of 1959. The one important exception to this generalization concerned the provincial governments, which in total raised slightly more capital in 1960 than in 1959. The following table, while not complete in its coverage of all borrowing and lending of Canadians, does give a general outline of the activity which took place in the capital markets in 1960 as compared with 1959. It should be noted that the "sources of funds" include all net new issues of securities both in Canadian and foreign currencies, as well as the net change in bank loans to provincial and municipal governments, instalment finance companies, grain dealers, and in general loans and insured mortgage loans.

Funds raised by private borrowers in 1960, particularly those of business and industry, registered the greatest proportionate decreases from 1959. The slowing down of the rate of economic activity caused corporations to revise their investment plans downward and, after mid-year, to reduce inventories, while the total amount of business savings was somewhat higher in 1960 than in 1959.

While the total funds raised in 1960 from all sources declined from the level of the previous year, the volume of securities denominated in foreign currency

TABLE 43

NET FUNDS RAISED BY CANADIAN BORROWERS

—	1959 Total	1960 Total	1Q	2Q	3Q	4Q
		(Millions of dollars)				
Raised by:						
Government of Canada	1,058	669	265	−81	−192	678
of which:						
Net New Issues of Securities	*723*	*612*	*176*	*−136*	*−64*	*637*
Net Disinvestments (+) in Government Accounts	*+335*	*+57*	*+89*	*+55*	*−128*	*+41*
Provincial Governments	540	556	48	233	165	110
Municipal Governments	340	301	147	22	53	79
Private Borrowers	1,542	824	262	437	62	63
of which:						
Business[1]	*1,026*	*554*	*347*	*248*	*3*	*−44*
Personal	*516*	*270*	*−85*	*189*	*59*	*107*
Grand Total	**3,481**	**2,350**	**722**	**611**	**87**	**930**
Raised from:						
Securities Markets	2,614	1,951	695	490	23	743
Bank Loans	867	399	27	121	64	187

NOTE: Figures may not add due to rounding.

[1] Contains a residual item to balance both sides of the account.

declined even more sharply to less than one-half of the 1959 total. As the table below indicates, the sharpest decline in borrowing abroad during 1960 occurred in provincial issues.

TABLE 44

NET NEW ISSUES OF BONDS AND STOCKS—FOREIGN CURRENCY

—	1959 Total	1960 Total	1Q	2Q	3Q	4Q
		(Millions of Canadian dollars)				
Federal	−149	−1	—	−1	—	—
Provincial	239	20	21	30	9	−39
Municipal	115	84	70	21	−2	−6
Corporate (including corporate stocks)	16	−1	20	7	−22	−6
Total	**221**	**103**	**112**	**58**	**−15**	**−51**

NOTE: Figures may not add due to rounding.

Considering net new issues of securities in Canadian currency, it is evident from the table below that the net amount of new issues of bonds sold by the federal government, including the net disinvestment in government securities by various government accounts, was considerably lower in 1960 than in 1959. Securities issued in Canada by provincial and, to a lesser extent, municipal governments were, however, at a markedly higher level in 1960 than they were in 1959.

The increases in net new issues in Canada by provincial and municipal governments were offset by the decreases already noted in net foreign issues, so that the total of new security issues by these levels of government was considerably lower in 1960 than in 1959. Similarly, the increase in domestic corporate issues was offset by a slight decrease in the issue of corporate bonds denominated in foreign currency. More significant, however, was the sharp drop in new corporate stock offerings in 1960. The net amount of $222 million issued during the year was just over one-half the 1959 figure of $404 million. Consequently,

TABLE 45

NET NEW ISSUES OF SECURITIES (INCLUDING NET DISINVESTMENT OF GOVERNMENT ACCOUNTS)—CANADIAN CURRENCY

—	1959 Total	1960				
		Total	1Q	2Q	3Q	4Q
	(Millions of dollars)					
Market Issues—						
Government of Canada						
(Direct and Guaranteed):						
Net Disinvestment (+) in Government Accounts	335	57	89	55	−128	41
Treasury Bills	582	−92	48	−160	—	20
Other Market Issues	−28	323	197	108	−7	25
Sub-total	*889*	*288*	*334*	*3*	*−135*	*86*
Provincial Governments	331	446	48	201	147	50
Municipal Governments	211	232	22	82	42	86
Corporations and "Other"	105	269	153	121	45	−50
Sub-total	*647*	*947*	*223*	*404*	*234*	*86*
Finance Co. Short Paper	135	10	52	1	−44	1
Corporate Stocks	404	222	43	107	41	30
Total Market Issues	**2,075**	**1,467**	**652**	**515**	**96**	**203**
Non-Market Issues—						
Canada Savings Bonds	317	382	−69	−84	−57	592
Grand Total	**2,392**	**1,849**	**583**	**431**	**39**	**795**

total funds raised in the Canadian securities market by corporations decreased from $493 million in 1959 to $471 million in 1960. Moreover, almost all of these funds were obtained in the first half of 1960. Since there was a net redemption of corporate bonds in the latter half of the year, the net funds raised in the market by corporations between July and December amounted to only $62 million.

Excluding the net disinvestment in government securities by government accounts, the federal government made net new issues of direct and guaranteed securities (including C.N.R.'s) in the Canadian market in the amount of $613 million, as compared with net issues of $817 million in 1959. Taking into account the net redemption of federal securities denominated in foreign currency, the net amount of new issues in 1960 increased the total of government direct and guaranteed securities outstanding to $17,747 million at December 31, 1961. Of this total, an amount of $16,881 million was held outside government accounts.

The total of federal government securities held outside government accounts increased from December 31, 1957 to December 31, 1960 by $3,083 million. Of this amount, somewhat more than one-half represents debt assumed by the federal government as the counterpart of loans, investments and debt guarantees made to various Crown corporations for commercial and quasi-commercial operations, particularly in the fields of transportation and housing. Reflecting this increase in assets, the net debt of the federal government (i.e., the difference between total liabilities and total assets) increased from March 31, 1957 to March 31, 1961 by only $1,434 million, to a level of $12,442 million.

To supplement the analysis of the demands on the Canadian capital market in 1960, the following table indicates changes in the volume of financing by various categories of borrowers through the medium of bank loans, excluding

TABLE 46

NET CHANGE IN CHARTERED BANK LOANS OUTSTANDING[1]

—	1959 Total	1960				
		Total	1Q	2Q	3Q	4Q
	(Millions of dollars)					
Business:						
Under $1,000,000	200	136	121	113	−8	−90
$1,000,000—$4,999,999	114	39	20	30	−2	−9
$5,000,000 and over	38	−39	−75	−27	−11	74
Sub-total	*351*	*136*	*66*	*116*	*−21*	*−25*
Personal and Mortgage	341	141	1	89	25	26
Provincial	−30	89	−22	2	10	99
Municipal	14	−14	54	−81	13	—
Other	191	46	−72	−5	37	87
Total	**867**	**398**	**27**	**121**	**64**	**187**

[1] Includes insured residential mortgage loans and excludes day-to-day loans, call and short loans, and loans for the purchase of Canada Savings Bonds.

call and day loans and loans for the purchase of Canada Savings Bonds. The figures in this table are not exactly comparable with those in Table 43, due to the inclusion, as already noted, of a residual adjustment in that table. It will be noted that the increase in bank loans during 1960 was less than half that in 1959. However, the provincial governments, which had on balance repaid loans in 1959, borrowed $89 million net in 1960 from the banking system.

From the above table it is apparent that, of the increase in bank loans during 1960, about one-third occurred in the business category, with increases in loans under $5 million being partially offset by decreases in loans in excess of this figure. Loans to public utilities and transportation increased, but much of this increase represented loans at the end of 1960 to major provincial utilities commissions in anticipation of the issue of bonds after the beginning of 1961. While loans to merchants and other businesses continued to increase during 1960, the net new demand for funds by these borrowers was less than in 1959. Loans to most categories of industry decreased during the year. The increase in personal loans and insured residential mortgage loans which occurred in 1960 was almost wholly the result of a rise in personal unsecured loans, since there were equal offsetting movements in personal secured loans and home improvement loans. The chartered banks made only a negligible contribution to the funds supplied for residential mortgages in 1960. Loans to provincial governments were considerably greater in 1960 than in 1959, particularly in the latter half of the year, when demands on the long-term Canadian capital market by provincial governments as a group were smaller than normal, and when there was a net redemption of foreign-pay provincial securities. The increase shown under "other" loans was made up of increases in loans to farmers, grain dealers and institutions, partially offset by decreases in loans to instalment finance and small loan companies.

National income increased less in 1960 than in 1959. The rate of total saving declined, and the general public* increased its holdings of financial assets in 1960 by only $2,304 million as compared with $3,270 million in 1959. During 1960, there was a marked change in the relative liquidity of the financial assets acquired by the public. The following table indicates the net changes in public holdings of financial assets, segregated by the relative liquidity of these assets.

* General public is defined to include all holders other than Bank of Canada, chartered banks and government accounts. It includes, for example, corporations, financial institutions other than chartered banks, provincial and municipal government accounts and non-residents, as well as resident persons.

TABLE 47

NET CHANGE IN HOLDINGS OF CERTAIN FINANCIAL ASSETS BY THE GENERAL PUBLIC

(Differentiated as to Degree of Liquidity)

—	1959 Total	1960 Total	1Q	2Q	3Q	4Q
	(Millions of dollars)					
More Liquid Assets:						
Treasury Bills	341	−207	−21	−143	−104	61
Canada Savings Bonds	317	382	−69	−84	−57	592
Finance Co. Short Paper	135	10	52	1	−44	1
Currency and Bank Deposits	−138	615	−105	244	394	82
Total	**655**	**800**	**−143**	**18**	**189**	**736**
Less Liquid Assets:						
Other Gov't. of Canada Market Issues	1,100	178	336	55	−173	−40
Provincial Bonds	640	489	65	232	179	13
Municipal Bonds	316	313	96	106	37	74
Corporate and Other Bonds	155	297	178	129	37	−47
Corporate Stocks	406	227	44	109	43	31
Total	**2,617**	**1,504**	**719**	**631**	**123**	**31**
Grand Total	**3,270**	**2,304**	**576**	**649**	**311**	**768**

NOTE: Figures may not add due to rounding.

During the first half of 1960, the increase in financial assets was more than accounted for by increases in public holdings of federal government and other bonds and of corporate stocks, since there was a net decrease during this period in more liquid holdings. This situation was reversed in the latter half of the year, mainly as a result of the usual heavy purchases of Canada Savings Bonds in the fourth quarter, but also due to an increase in holdings of currency and bank deposits.

Broadly corresponding to the increases in deposits with chartered banks during 1960, there was an increase in total bank assets. Assets at December 31, 1960, totalled $12,800 million as compared with $12,047 million at the end of 1959, an increase of $753 million. Of this increase, $582 million occurred in the final quarter of 1960. As will be seen from Table 48, a rise in bank holdings of Government of Canada bonds and of general loans accounted for most of the total increase in assets. A comparison of year-end totals of liquid assets conceals a sharp movement during the year: there was a large increase in bank liquidity in the early part of the fourth quarter of 1960 partially offset by a decline during November and December as the banks transformed liquid assets into assets of higher yields.

TABLE 48

CHARTERED BANK ASSETS—GROUPED BY MAJOR CATEGORIES

—	Dec. 31, 1959	Dec. 31, 1960	Change
	(Millions of dollars)		
Liquid assets[1]	2,028	2,131	+103
Government bonds	1,827	2,088	+261
Canadian loans (ex. day-to-day and call)	6,003	6,396	+393
Insured mortgages	968	971	+3
Other assets	1,221	1,214	−7
Total	**12,047**	**12,800**	**+753**

[1] Comprising Bank of Canada notes and deposits, day-to-day loans and treasury bills.

During the first three quarters of 1960, interest rates declined reflecting the generally lower demands on the capital market, and a parallel movement in interest rates in the U.S. After reaching a low point towards the end of the third quarter, rates rose fairly rapidly during the final quarter. The level at the end of 1960 was, however, below that a year earlier.

As usual, movements in the yields of three-month treasury bills during 1960 were considerably sharper than those of other interest rates. From a high of 5.14 per cent early in January, 1960, the three-month yield declined to 1.68 per cent late in September. In the subsequent nine-week period it increased rapidly, reaching a level of 3.95 per cent by the end of November, after which the rate dropped to 3.25 per cent by the end of December. The level has been generally maintained into 1961, and at March 30, 1961, the yield was 3.21 per cent. In addition to these major movements, however, there were during 1960 considerably more short-term swings in the three-month yield than in 1959.

While following the same general pattern, the changes in medium and long-term yields were more moderate. Medium-term yields decreased steadily until the end of September. During the final quarter of the year, this decline was reversed, but the yields at the end of the year were lower than in December, 1959. The yields on Government of Canada 2-3/4 per cent bonds due June 15, 1967-68, declined from 5.37 per cent at the end of 1959 to 4.09 per cent in September, then rose to 4.74 per cent in December. The yield on long-term maturities followed a similar but less pronounced movement. Government of Canada 3-3/4 per cent bonds of January 15, 1975-78, yielded 5.60 per cent at the end of 1959, 4.84 per cent in September, 1960 and 5.41 per cent at year-end.

Provincial, municipal and industrial bond yields followed a pattern during 1960 similar to that of other interest rates. The prime commercial lending rate of the chartered banks, which rose from 5-1/2 per cent to 5-3/4 per cent in April, 1959, remained at this level throughout the whole of 1960. Similarly, the interest rate on savings deposits in the chartered banks remained at 2-3/4 per cent throughout the year.

TABLE 49

COMPARISON OF YIELDS ON FEDERAL GOVERNMENT BONDS IN CANADA AND THE UNITED STATES

End of[1]	Medium Bonds[2]			Long Bonds[3]			91-Day Treas. Bills		
	Canada	U.S.	Spread	Canada	U.S.	Spread	Canada	U.S.	Spread
1959—									
March	4.75	3.92	.83	4.88	3.95	.93	4.30	2.77	1.53
June	4.83	4.33	.50	5.08	4.09	.99	5.11	3.16	1.95
September	5.30	4.65	.65	5.61	4.12	1.49	5.50	4.19	1.31
December	5.37	4.90	.47	5.60	4.41	1.19	5.12	4.52	.60
1960—									
March	5.17	4.22	.95	5.32	4.13	1.19	3.01	2.79	.22
June	4.50	4.03	.47	5.08	3.83	1.25	3.07	2.40	.67
September	4.09	3.55	.54	4.84	3.76	1.08	1.70	2.29	−.59
December	4.74	3.72	1.02	5.41	3.80	1.61	3.25	2.15	1.10
1961—									
March	4.68	3.72	.96	5.18	3.80	1.38	3.21	2.39	.82

[1] Last Wednesday of the month.

[2] For Canada, Government of Canada 2¾% bonds due June 15, 1967–68; for U.S., United States Government 2½% bonds due December 15, 1963–68.

[3] For Canada, Government of Canada 3¾% bonds due January 15, 1975–78; for U.S., United States Government 3¼% bonds due June 15, 1978–83.

During the first half of 1960, interest rates in the United States declined, responding to factors similar to those in Canada. However, rates did not rise as much in the United States during the latter part of 1960. Consequently, the spread between Canadian and United States interest rates, which had narrowed slightly in the early part of 1960, widened considerably during the remainder of the year. For medium and long-term yields, the spread at the end of 1960 was almost half again as great as it was at the end of 1959. In the case of treasury bills, while the sharper fluctuations in Canadian rates brought them below comparable yields in the United States at several points during 1960, the spread at the end of the year had again widened until it was greater than that on medium-term yields, although less than the differential on long yields.

Part II

REVIEW OF GOVERNMENT ACCOUNTS 1960-61

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Part II

REVIEW OF GOVERNMENT ACCOUNTS

1960-61

1. INTRODUCTION

A preliminary review of the accounts of the Government of Canada for the fiscal year 1960-61 is presented in this Part. The Government's fiscal year ended on March 31, but the books must remain open for some time after that date to take into account all payments up to and including April 30, originating in and properly chargeable to, the fiscal year 1960-61 and to record various adjusting and closing entries. Consequently the figures in this Part are preliminary and subject to revision, and the final figures when they become available next July or August may differ to some extent from those given in the following pages.

2. HIGHLIGHTS OF GOVERNMENTAL FINANCIAL OPERATIONS DURING 1960-61

The financial operations of the Government for the fiscal year 1960-61 are summarized in the following table which indicates how the budgetary and non-budgetary transactions, including changes in unmatured debt, affected the Government's cash balances. More detailed explanations of these transactions are given in subsequent sections of this Part.

TABLE 1

(in millions of dollars)

Summary of Budgetary and Non-Budgetary Transactions and Changes in Cash Position	Fiscal year ended March 31			
	1961 (preliminary)		1960	
Budgetary transactions—				
Revenues—				
Tax	5,016		4,752	
Non-tax	600		538	
	5,616		*5,290*	
Expenditures—				
Defence	−1,539		−1,533	
Non-defence	−4,422		−4,170	
	−5,961		*−5,703*	
Deficit (−)		−345		−413
Non-budgetary transactions—				
Receipts and credits (excluding unmatured debt transactions)—				
Repayment of temporary loan to old age security fund	11		....	
Repayments of other loans, investments and working capital advances	193		358	
Net government annuities account receipts	42		51	
Net insurance and pension accounts receipts	349		211	
Other non-budgetary receipts	95		211	
	690		*831*	
Disbursements and charges (excluding unmatured debt transactions)—				
Temporary loan to old age security fund	......		−28	
Other loans, investments and working capital advances	−483		−730	
Other non-budgetary disbursements	−156		−35	
	−639		*−793*	
Net amount received from non-budgetary transactions		51		38
Overall cash requirements (−) to be financed by increase in debt or decrease in cash balances		−294		−375
Net increase in unmatured debt outstanding in the hands of the public		223		334
Net decrease (−) in Receiver General bank balances		−71		−41

Budgetary transactions

The revenues and expenditures as forecast in the budget speech of March 31, 1960 and revised on December 20, 1960 and the actual figures as now estimated are shown in the following table:

TABLE 2

(in millions of dollars)

Fiscal Year 1960–61	Budget forecast March 31, 1960	Revised forecast December 20, 1960	Actual (preliminary)	Increase or decrease (—) compared with December 20, 1960 forecast	
				Amount	Per cent
Revenues	5,892.0	5,694.0	5,615.6	—78.4	—1.4
Expenditures	—5,880.0	—5,980.0	—5,961.1	—18.9	—0.3
Surplus or deficit (—)	12.0	—286.0	—345.5	59.5	

Revenues

The revenues of the government for the fiscal year ended March 31, 1961, amounted to $5,616 million. This is $78 million or about one and two-fifths per cent less than the total of $5,694 million forecast in the supplementary budget of December 20, 1960, and $326 million or 6 per cent more than the total of $5,290 million collected in 1959–60.

The sharp drop in revenues from the December forecast was due largely to an unexpected drop in March receipts. This was caused chiefly by the incidence of the Easter week-end. This year March 31 was Good Friday, and a considerable proportion of tax payments that are usually received on or before the last day of the month were in fact not mailed until April 3 or 4 and therefore could not be credited to the 1960–61 fiscal year receipts. As a result, the March revenues were about $40 million below normal and the 1960–61 budgetary deficit was increased by the same amount.

Of the increase of $326 million over 1959-60 revenues, $264 million was due to tax revenue and $62 million to non-tax revenue. Higher income tax collections accounted for nearly all of the increase in tax revenue. Personal income tax receipts were $145 million more than in the preceding year, reflecting the higher level of incomes during the year and the yield for a full year of the increase in tax rates that became effective July 1, 1959. Corporation income tax collections were $134 million higher, notwithstanding the fact that 1960 profits were lower than in 1959, reflecting the collection in the fiscal year of substantial amounts for taxes on 1959 profits and also the effect for a full year of the rate increase effective January 1, 1959.

The increase of $62 million in non-tax revenue was due principally to an increase of $44 million in return on investments.

Expenditures

Government expenditures amounted to $5,961 million and were three-tenths of one per cent less than forecast on December 20, 1960, and $258 million or about 5 per cent more than total expenditures in 1959–60.

Expenditures for defence again constituted the largest item, amounting to $1,539 million or 26 per cent of the total expenditures, compared with $1,532 million or 27 per cent in 1959-60.

Civil or non-defence expenditures amounted to $4,422 million, an increase of $251 million over the corresponding total for the previous fiscal year. There were increases of $69 million in expenditures of the Department of National Health and Welfare (including an increase of $39 million in the government's contribution under the Hospital Insurance and Diagnostic Services Act), $38 million in expenditures of the Department of Agriculture (due to $41 million for payments to western grain producers), $41 million in expenditures of the Department of Transport (including $24 million for the increase in the deficit of the Canadian National Railways), and $39 million in the expenditures of the Department of Finance (including $19 million for increased payments to the provinces and $14 million for higher public debt charges).

More detailed explanations of budgetary revenues by source and expenditures by classification and department are given in Section 3 of this Part.

Deficit

On the basis of these preliminary figures the deficit for the fiscal year was $345 million compared with the deficit of $286 million as forecast on December 20, 1960, and the deficit of $413 million in 1959-60.

Non-budgetary transactions

A net amount of $51 million was available during the fiscal year from non-budgetary transactions. Non-budgetary disbursements and charges totalled $639 million. Sums totalling $483 million were required for loans, investments and working capital advances, and $156 million for other non-budgetary purposes. On the other hand, a total of $690 million was available from various non-budgetary receipts and credits. Of this amount, $204 million was available from the repayment of loans, investments and working capital advances, $391 million from the net receipts from various government annuity, insurance and pension accounts, and $95 million from other non-budgetary sources.

Old age security fund

During 1960-61 pension payments from the old age security fund totalled $592 million and tax receipts credited to the fund amounted to $603 million. The excess of $11 million of receipts over payments was applied to reduce the temporary loans made by the Minister of Finance to the fund. These loans amounted to $28 million as at March 31, 1960, and to $17 million as at March 31, 1961.

The transactions in the account during 1960-61 compared with those for the previous fiscal year were as follows:

	Fiscal year ended March 31 1961 (preliminary)	1960
	(in millions of dollars)	
Pension payments	592	575
Tax receipts	603	547
Excess of receipts over payments applied to the repayment of temporary loans from the Minister of Finance, or excess of payments over receipts (−) covered by temporary loans from the Minister of Finance	11	−28
Temporary loans outstanding at the fiscal year-end	17	28

Debt transactions

During 1960-61 the government issued securities amounting to $2,531 million (excluding the refunding of treasury bills which mature weekly) and redeemed or converted issues in the amount of $2,353 million, resulting in an increase of $178 million in unmatured debt. As other liabilities increased by $437 million the government's gross public debt increased by $615 million to $21,601 million at March 31, 1961. During the same period the government's net assets increased by $262 million to $9,159 million. As a result, the government's net debt at March 31, 1961, was $12,442 million compared with $12,089 million at March 31, 1960. The increase of $353 million reflected the budgetary deficit of $345 million plus an adjustment of $8 million in respect of prior years' transactions.

Cash position

Receiver General balances were $71 million less at the end of the fiscal year than they were at the beginning. The budgetary deficit of $345 million was financed by the net amount of $51 million available from non-budgetary transactions, the increase of $223 million in unmatured debt outstanding in the hands of the public (after taking into account transactions in the securities investment account and the sinking fund account) and the decrease of $71 million in cash balances.

3. THE BUDGETARY ACCOUNTS

Total revenues amounting to $5,616 million for 1960-61 were $326 million more than the total for the previous year. Total expenditures were $5,961 million, an increase of $258 million over the total for 1959-60. The deficit for the fiscal year was $345 million compared with $413 million for the previous year.

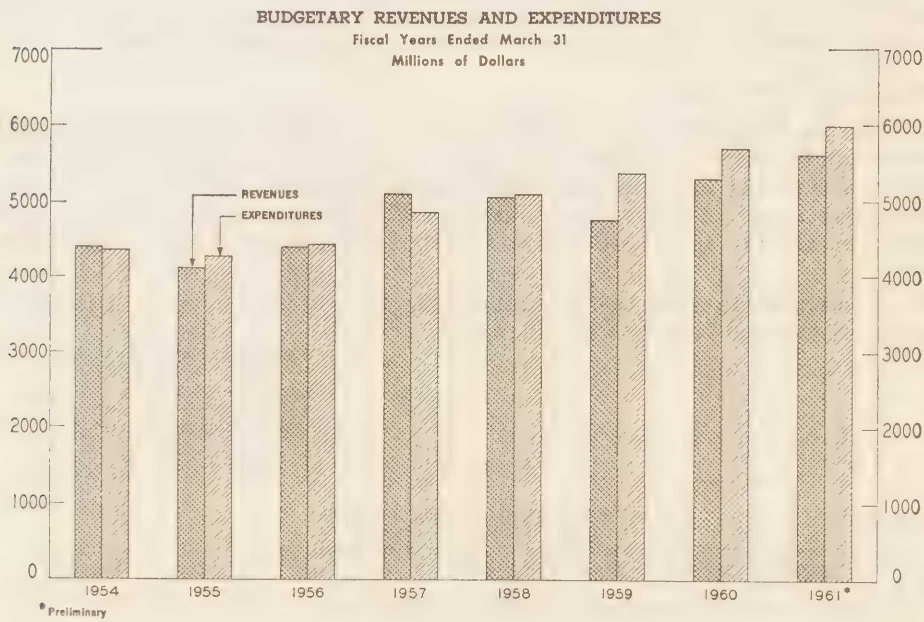
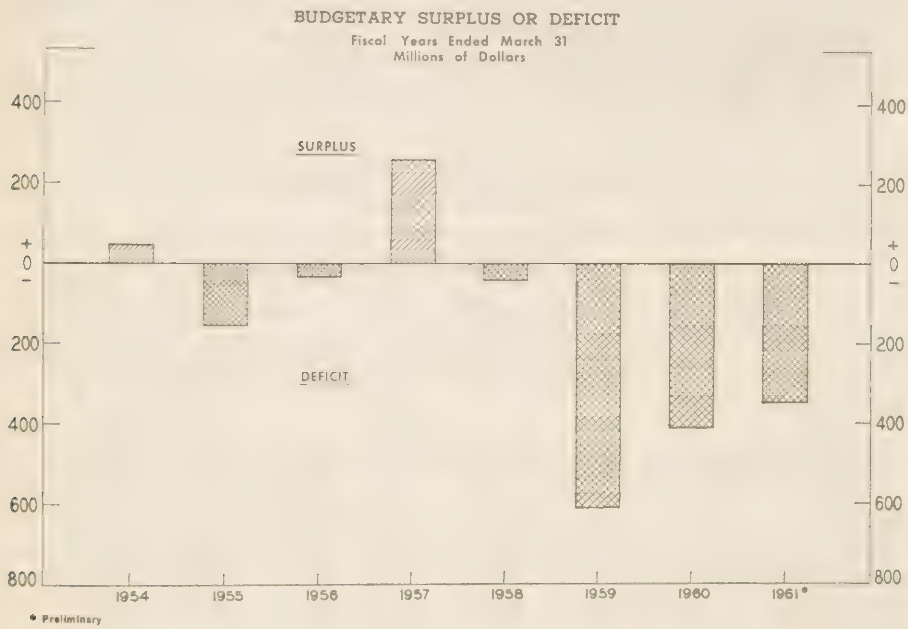


TABLE 3

Budgetary Revenues, Expenditures and Surplus or Deficit

(in millions of dollars)

Fiscal year ended March 31	Budgetary revenues	Budgetary expenditures	Surplus or deficit (−)
1957	5,106.5	4,849.0	257.5
1958	5,048.8	5,087.4	−38.6
1959	4,754.7	5,364.0	−609.3
1960	5,289.8	5,702.9	−413.1
1961 (preliminary)	5,615.6	5,961.1	−345.5



A. Revenues

Budgetary revenues were $5,616 million in the fiscal year 1960-61 compared with $5,290 million in the previous year, an increase of $326 million or 6 per cent. Of the total for the year, $5,016 million or 89 per cent was derived from taxes and $600 million or 11 per cent from other sources.

BUDGETARY REVENUES BY SOURCE
Fiscal Years Ended March 31
Millions of Dollars

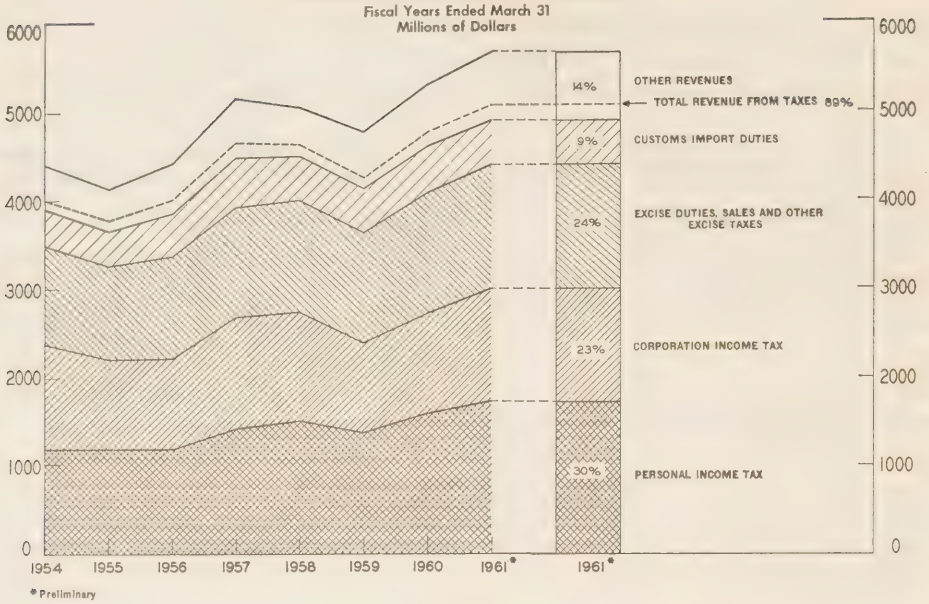


TABLE 4

BUDGETARY REVENUES BY MAJOR SOURCES
(in millions of dollars)

Source	Fiscal year ended March 31				Increase or decrease (−)	
	1961 (preliminary)		1960			
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Tax revenues—						
Income tax—						
Personal(1)	1,711.2	30.5	1,566.6	29.6	144.6	9.2
Corporation(1)	1,276.6	22.7	1,142.9	21.6	133.7	11.7
On dividends, interest, etc. going abroad	88.2	1.6	73.3	1.4	14.9	20.3
Excise taxes—						
Sales(1)	720.6	12.8	732.7	13.9	−12.1	−1.7
Other	290.7	5.2	287.5	5.4	3.2	1.1
Customs import duties	498.7	8.9	525.7	9.9	−27.0	−5.1
Excise duties	344.9	6.1	335.2	6.3	9.7	2.9
Estate tax(2)	84.9	1.5	88.4	1.7	−3.5	−4.0
Other taxes	(3)	....	(3)	....	(3)	....
	5,015.8	*89.3*	*4,752.3*	*89.8*	*263.5*	*5.5*
Non-tax revenues—						
Return on investments	284.0	5.1	239.7	4.5	44.3	18.5
Post office	173.6	3.1	167.6	3.2	6.0	3.6
Other non-tax revenues	142.2	2.5	130.2	2.5	12.0	9.2
	599.8	*10.7*	*537.5*	*10.2*	*62.3*	*11.6*
Total revenues	5,615.6	100.0	5,289.8	100.0	325.8	6.2

	1960–61 (preliminary)	1959–60
(1) Excluding tax credited to the old age security fund—		
Personal income tax	229.4	185.6
Corporation income tax	103.5	91.3
Sales tax	270.2	270.0
	603.1	546.9

(2) Includes duties levied under the Succession Duty Act.

(3) Less than $50,000.

(1) TAX REVENUES

Tax on personal incomes

The personal income tax was again in 1960-61 the largest source of government revenue. The yield (excluding the old age security tax) was $1,711 million or 31 per cent of all revenue. The increase of $144 million or 9 per cent over the 1959-60 collections was due partly to the higher level of incomes during the year and partly to the increase in rates which took effect on July 1, 1959. The 1959-60 receipts did not include a full year's return at the increased rates.

In addition the tax on personal incomes levied under the Old Age Security Act yielded $229 million. This revenue was credited to the old age security fund.

Corporation income tax

The corporation income tax (excluding the old age security tax) yielded $1,277 million and was the second largest source of revenue. The 1960-61 collections showed an increase of $134 million over the previous year despite the fact that 1960 profits were lower than in 1959. The increase in collections was due to the fact that substantial amounts were collected in 1960–61 on account of 1959 profits and also to the increase in rates effective January 1, 1959. The 1959–60 collections did not reflect a full year's return at the higher rate.

In addition the tax on the income of corporations levied under the Old Age Security Act yielded $104 million and was credited to the old age security fund.

Taxes on dividends, interest, etc. going abroad

Revenue included in this category is derived from taxes withheld on payments of interest, dividends, rents, royalties, alimony and income from estates and trusts made to non-residents. The 1960–61 collections were $88 million, an increase of $15 million over the previous year's total.

Excise taxes

Included under this heading are the revenues from the general sales tax and other special excise taxes.

From a revenue standpoint the most important tax levied under the Excise Tax Act is the sales tax. Receipts from this tax (excluding the old age security tax) were $12 million or 2 per cent lower than the previous year. This decline is believed to be due to the fact that some remittances of tax, which would normally have been received on March 31, were delayed until April because March 31 fell in the Easter holiday week-end.

The tax on sales, levied under the Old Age Security Act, yielded $270 million, approximately the same as in 1959-60. This revenue was credited to the old age security fund.

Other excise taxes yielded a total of $291 million, compared with $288 million in 1959-60. The increase of $3 million was due mainly to an increase of $8 million in receipts from the tax on tobacco products offset partly by decreases in other categories.

Customs import duties

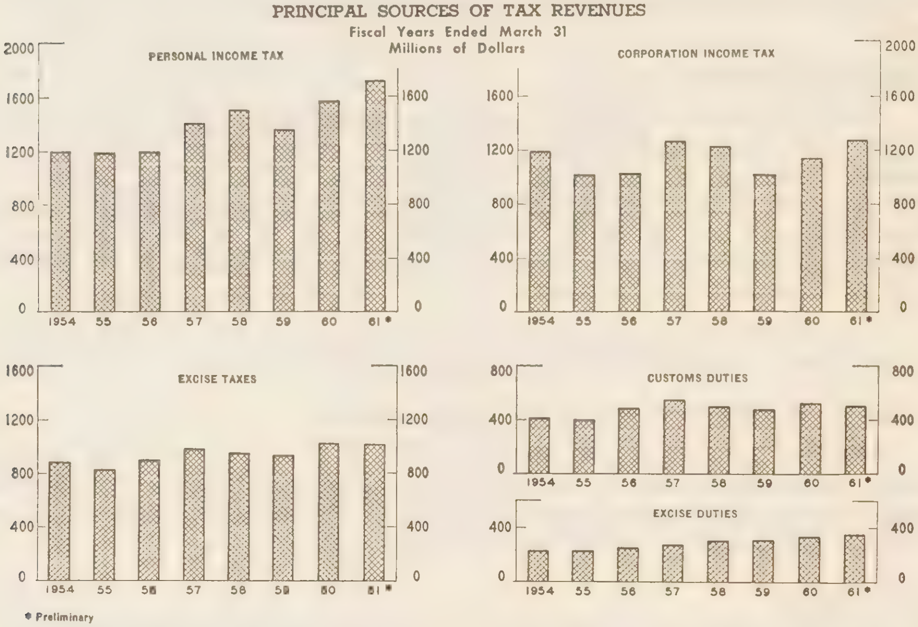
Customs import duties yielded $499 million in 1960–61 compared with $526 million in 1959–60, a decrease of $27 million.

Excise duties

Excise duties are levied only on alcoholic beverages and tobacco products. (Additional taxes on tobacco products are levied under the Excise Tax Act referred to above.)

Collections in 1960–61 were $345 million, an increase of $10 million over the 1959–60 total. Gross receipts in 1960–61 from the taxes on alcoholic beverages were $200 million and from the taxes on tobacco products were $150 million, compared with $193 million and $146 million respectively in the previous year.

PRINCIPAL SOURCES OF TAX REVENUES



Estate tax

The revenue from this source amounted to $85 million, a decrease of $3 million from the 1959–60 total.

Other taxes

Revenue under this heading amounted to less than $50 thousand in 1960–61, approximately the same as in 1959–60.

(2) NON-TAX REVENUES

Non-tax revenues for 1960–61 were $600 million, $62 million or 12 per cent more than the 1959–60 total of $538 million.

TABLE 5

(in millions of dollars)

Non-Tax Revenues	Fiscal year ended March 31		Increase or decrease (−)	
	1961 (preliminary)	1960	Amount	Per cent
Return on investments	284.0	239.7	44.3	18.5
Post office	173.6	167.6	6.0	3.6
Refunds of previous years' expenditures	40.3	40.6	−0.3	−0.7
Services and service fees	35.4	31.3	4.1	13.1
Proceeds from sales	24.0	21.9	2.1	9.6
Privileges, licences and permits	27.1	25.0	2.1	8.4
Bullion and coinage	8.3	5.4	2.9	53.7
Other	7.1	6.0	1.1	18.3
	599.8	537.5	62.3	11.6

Return on investments

Receipts in this category amounted to $284 million compared with $240 million in 1959-60.

Payments from Crown corporations were $194 million, an increase of $41 million over the previous year's total. Increases of $16 million in receipts from the Bank of Canada, $16 million from Central Mortgage and Housing Corporation, $8 million from The St. Lawrence Seaway Authority and other smaller increases amounting to $7 million were offset partly by a decrease of $6 million from the Canadian National Railways.

TABLE 6

(in millions of dollars)

Return on Investments	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Loans to, and investments in, Crown corporations—			
Bank of Canada profits	90.2	74.0	16.2
Canadian National Railways	5.0	11.1	−6.1
Canadian National (West Indies) Steamships Limited	2.8	(1)	2.8
Central Mortgage and Housing Corporation	59.5	43.8	15.7
Eldorado Mining and Refining Limited	5.0	4.2	0.8
Farm Credit Corporation	4.2	2.8	1.4
National Harbours Board	3.9	3.3	0.6
Northern Ontario Pipe Line Crown Corporation	4.3	4.1	0.2
Polymer Corporation Limited	3.0	3.0	....
The St. Lawrence Seaway Authority	13.1	5.0	8.1
Miscellaneous	3.2	1.5	1.7
	194.2	*152.8*	*41.4*
Other loans and investments—			
United Kingdom	22.2	22.5	−0.3
Other national governments	9.7	10.2	−0.5
Provincial governments	1.9	2.0	−0.1
Soldier and general land settlement loans and veterans land act advances	5.3	5.0	0.3
Exchange fund account	32.5	25.5	7.0
Securities investment account	4.4	3.5	0.9
Sinking fund and other investments held for retirement of unmatured debt	2.5	2.5	....
Interest-bearing deposits with chartered banks	6.5	10.5	−4.0
Unemployment Insurance Commission	0.2	1.5	−1.3
Miscellaneous	4.6	3.7	0.9
	89.8	*86.9*	*2.9*
	284.0	239.7	44.3

(1) Less than $50,000.

Other loans and investments yielded $90 million compared with $87 million in 1959–60. The main items of note were an increase of $7 million in the profits of the exchange fund account and a decrease of $4 million in interest on Receiver General deposits with the chartered banks.

Post office

Gross post office receipts totalled $202 million in 1960-61 but authorized disbursements from revenue for salaries and rent allowances at semi-staff and revenue offices, commissions at sub-offices, transit charges on Canadian mail forwarded through or delivered in foreign countries, etc., amounting to $28 million brought net revenue to $174 million. Last year gross receipts were $194 million and authorized disbursements totalled $26 million.

As costs of operating the Post Office Department during 1960–61 (excluding the $28 million charged to revenue) were $178 million, net expenditure exceeded net revenue by $4 million. However, in making the comparison, it is to be noted that the total shown for post office revenue does not reflect any payment for the franking privileges covering parliamentary and departmental mail or for certain miscellaneous services provided for other government departments and agencies, nor does the total shown for operating expenses reflect any charges for premises occupied by the Post Office Department or for certain accounting and miscellaneous services provided by other departments.

Refunds of previous years' expenditures

Refunds in 1960-61 of expenditures made in prior years totalled $40 million compared with the 1959–60 total of $41 million. These refunds included $22 million received by the Department of National Defence of which $9 million was in respect of contracts with the United States Government for the supply of engines, aircraft and other defence equipment under an arrangement that when Canada places contracts with the Government of the United States, payments of the estimated costs are made to the United States Treasury and if these estimated costs are revised, or if there are reductions in the contracts, the United States Government refunds the overpayments. Also included were $5 million received by the Department of Transport, mainly in respect of the Canso Causeway and $4 million received by the Department of Finance, of which $3 million was a repayment by the Province of Ontario in connection with succession duty payments under the tax-rental agreements. In addition, the unexpended balance of parliamentary grants as at March 31, 1960, amounting to $4 million, was refunded by the Canadian Broadcasting Corporation.

Services and service fees

Collections for services and service fees by various government departments were $35 million, $4 million more than was collected in 1959–60.

Revenue in this category included $10 million received by the Royal Canadian Mounted Police, mainly for police services to provinces and municipalities; $10 million received by the Department of Transport, mainly for wharfage and other canal and marine service fees, steamship inspection, air-ground radio at

airports, and government telegraph and telephone services; and $6 million received by the Department of Trade and Commerce, mainly for services in connection with the inspection, weighing, storage and elevation of grain and for electricity, gas and weights and measures inspection services.

Proceeds from sales

Receipts from this source were $24 million compared with $22 million in the previous year.

These receipts included $9 million from Crown Assets Disposal Corporation representing amounts realized from the disposal of surplus Crown assets (after deducting certain agency fees and transfers), $4 million under agreements of sale of Crown assets and $5 million from Central Mortgage and Housing Corporation representing the proceeds from the sale of wartime housing properties and including amounts available as the result of the reversal of the provision for depreciation set aside by the corporation in previous years on properties that have now been sold.

Privileges, licences and permits

Revenue of $27 million was received during the fiscal year on account of privileges, licences and permits, $2 million more than was received in 1959-60.

Included in this revenue was $13 million collected by the Department of Transport, mainly on account of aircraft landing fees, rentals of hangar accommodation and other miscellaneous rental charges, and $4 million collected by the Department of Northern Affairs and National Resources, mainly in connection with oil leases in the Northwest Territories.

Bullion and coinage

Revenues of $8 million under this heading were derived from the operations of the Royal Canadian Mint and included a net gain of $7 million on coinage. Gold refining, storage and handling charges and gain in gold refining amounted to $1 million (of which half was in respect of handling charges).

Other non-tax revenues

Revenue in this category amounted to $7 million in 1960-61, $1 million more than the 1959–60 total.

B. Expenditures

Budgetary expenditures for 1960-61 amounted to $5,961 million, an increase of $258 million over the 1959-60 total of $5,703 million.

TABLE 7

Statement of Budgetary Expenditures by Departments and Major Classifications
(in millions of dollars)

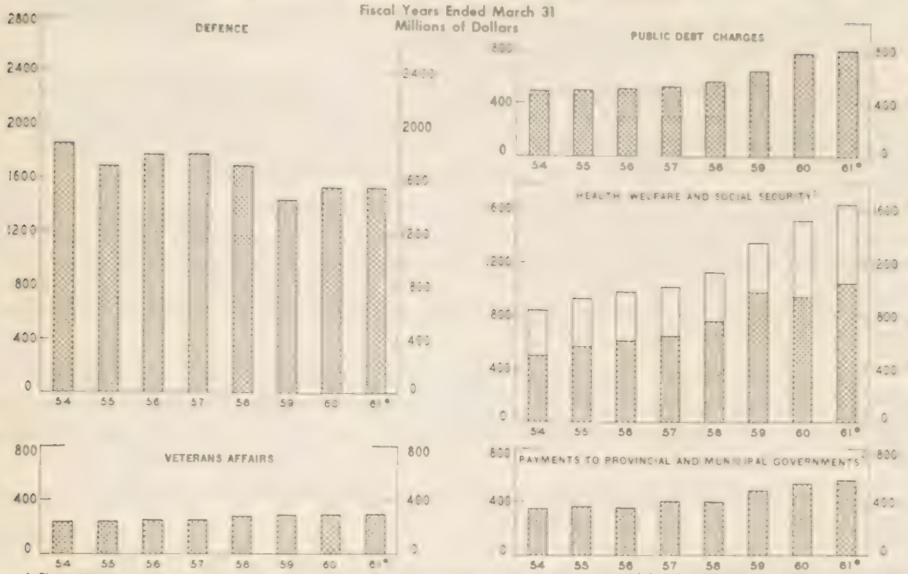
—	Fiscal year ended March 31				Increase or decrease (—)	
	1961 (preliminary)		1960			
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Defence expenditures—						
National Defence	1,519.0	25.5	1,514.9	26.6	4.1	0.3
Defence Production	20.4	0.3	17.6	0.3	2.8	15.9
	1,539.4	*25.8*	*1,532.5*	*26.9*	*6.9*	*0.5*
Non-defence expenditures—						
Agriculture	265.0	4.4	227.5	4.0	37.5	16.5
Atomic Energy	38.9	0.7	30.1	0.5	8.8	29.2
Canadian Broadcasting Corporation	67.2	1.1	64.0	1.1	3.2	5.0
Citizenship and Immigration	60.6	1.0	54.9	1.0	5.7	10.4
External Affairs	103.1	1.7	97.2	1.7	5.9	6.1
Finance—						
Public debt charges	797.2	13.4	783.5	13.7	13.7	1.7
Tax-sharing, subsidy and other payments to provinces	537.8	9.0	518.9	9.1	18.9	3.6
Government's contribution to the public service superannuation account	41.4	0.7	40.0	0.7	1.4	3.5
Other	83.2	1.4	77.8	1.4	5.4	6.9
	1,459.6	*24.5*	*1,420.2*	*24.9*	*39.4*	*2.8*
Fisheries	19.3	0.3	19.9	0.3	−0.6	−3.0
Forestry	10.1	0.2	(1)9.9	0.2	0.2	2.0
Justice	8.6	0.2	8.1	0.1	0.5	6.2
Office of the Commissioner of Penitentiaries	19.1	0.3	19.7	0.4	−0.6	−3.0
	27.7	*0.5*	*27.8*	*0.5*	*−0.1*	*−0.4*
Labour	24.3	0.4	21.3	0.4	3.0	14.1
Unemployment Insurance Act administration and government's contribution	97.2	1.6	81.6	1.4	15.6	19.1
	121.5	*2.0*	*102.9*	*1.8*	*18.6*	*18.1*
Mines and Technical Surveys	59.0	1.0	54.4	1.0	4.6	8.5
National Health and Welfare—						
Family allowances	506.2	8.5	491.2	8.6	15.0	3.1
Government's contributions under the Hospital and Diagnostic Services Act	189.4	3.2	150.6	2.7	38.8	25.8
Other	191.6	3.2	176.6	3.0	15.0	8.5
	887.2	*14.9*	*818.4*	*14.3*	*68.8*	*8.4*
National Research Council	34.5	0.6	31.5	0.6	3.0	9.5
National Revenue	73.3	1.2	68.7	1.2	4.6	6.7
Northern Affairs and National Resources	74.5	1.2	74.3	1.3	0.2	0.3
Post Office	178.4	3.0	165.8	2.9	12.6	7.6
Public Works	200.9	3.4	217.9	3.8	−17.0	−7.8
Royal Canadian Mounted Police	56.0	0.9	52.4	0.9	3.6	6.9
Trade and Commerce	21.7	0.4	17.9	0.3	3.8	21.2
Transport	337.7	5.7	296.5	5.2	41.2	13.9
Veterans Affairs	292.3	4.9	288.3	5.1	4.0	1.4
Other Departments	33.2	0.6	29.9	0.5	3.3	11.0
	4,421.7	*74.2*	*4,170.4*	*73.1*	*251.3*	*6.0*
Total budgetary expenditures	5,961.1	100.0	5,702.9	100.0	258.2	4.5

(1) Expenditures for divisions which are now included in the Department of Forestry and which were previously reported under the Department of Agriculture and the Department of Northern Affairs and National Resources.

PRINCIPAL CLASSES OF BUDGETARY EXPENDITURES

Fiscal Years Ended March 31

Millions of Dollars



1. The unshaded areas of the columns in the chart for health, welfare and social security represent pension payments out of the old age security fund not charged to budgetary expenditures in the year in which they were paid.
2. Does not include those payments made to provincial and municipal governments for specific purposes.
* Preliminary

Defence expenditures

Defence expenditures which consist of expenditures of the Departments of National Defence and Defence Production were again the largest category of government budgetary expenditures. The total of $1,539 million for 1960–61 was approximately 26 per cent of the aggregate budgetary expenditures of the government for that year and was $7 million more than the total of $1,532 million for 1959–60. In 1959–60 civil defence expenditures were shown as a separate classification under defence expenditures whereas in 1960–61 they have been included in relevant departmental expenditures. For purposes of comparison the 1959–60 amounts have been adjusted accordingly.

TABLE 8
(in millions of dollars)

Defence Expenditures	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Department of National Defence—			
Army services	400.1	400.8	−0.7
Naval services	248.6	255.8	−7.2
Air services	749.6	728.4	21.2
	1,398.3	*1,385.0*	*13.3*
Defence research and development	44.2	39.2	5.0
Mutual aid to NATO countries including contributions towards military costs of NATO	15.5	18.4	−2.9
Government's contribution to the Canadian forces superannuation account	40.6	51.8	−11.2
Administration and general	20.4	20.5	−0.1
	1,519.0	1,514.9	4.1
Department of Defence Production—			
Production capacity and capital assistance	1.8	2.6	−0.8
[illegible]	2.9	1.9	1.0
Administration and general	15.7	13.1	2.6
	20.4	*17.6*	*2.8*
	1,539.4	1,532.5	6.9

National Defence

Expenditures of the Department of National Defence were $1,519 million In 1959–60 expenditures were $1,515 million.

Expenditures for army, naval and air services totalled $1,398 million, $13 million more than the 1959–60 total. The increase of $21 million in the outlay for air services was offset in part by decreases of $7 million and $1 million in the outlays for naval services and army services respectively.

Direct charges to mutual aid in 1960–61 of $15 million compared with $18 million for 1959–60 and consisted of procurement of equipment for mutual aid and Canada's share of NATO military budgets and infra-structure costs.

Expenditures for defence research and development were $44 million compared with $39 million in 1959–60.

The government's contribution to the Canadian forces superannuation account of an amount equal to $1\frac{2}{3}$ times the contributions by permanent services personnel was $41 million, a decrease of $11 million from the total for the previous year.

Administration and general costs were $20 million in 1960–61, approximately the same as the 1959–60 total.

Defence Production

The total expenditure of $20 million for the Department of Defence Production was $3 million more than in 1959–60, due mainly to increased administration and general costs. Outlays of $3 million in connection with the government program instituted in 1959–60 of supporting selected defence development programs in order to sustain technological capability in Canadian industry were $1 million more than in 1959–60. Expenditures of $2 million for the programs under which assistance for the establishment of production capacity and capital assistance is given to private contractors, Crown plants operated on a management-fee basis and Crown corporations undertaking contracts essential to the defence program were approximately $1 million less than expenditures in the previous fiscal year.

Cash outlays

Section 11 of the National Defence Act provides that materiel, not immediately required for the use of the Canadian defence forces or the Defence Research Board, may be sold to such countries and upon such terms as the Governor in Council may determine. The proceeds of such sales in 1960–61 amounting to $6 million were credited to a special account to be used for the procurement of materiel. Cash outlays from this account during 1960–61 were $3 million leaving a balance of $7 million at March 31, 1961.

The Department of Defence Production also makes cash disbursements for the procurement of materials for use in the manufacture of defence equipment which are not recorded as budgetary expenditures. For purposes of accounting and control, these amounts are charged to the defence production revolving fund and are treated as assets on the books of the government until they are billed to the Department of National Defence or sold to defence contractors for use in the manufacture of defence equipment. As a result of the transactions during 1960–61 proceeds from sales exceeded purchases by $5 million and the assets of the fund were reduced by an equivalent amount leaving a balance of $16 million in the account at March 31, 1961.

The following table summarizes the cash outlays for defence for the past two fiscal years:

TABLE 9

(in millions of dollars)

Cash Outlays for Defence	Fiscal year ended March 31		Increase or decrease (—)
	1961 (preliminary)	1960	
Budgetary expenditures—			
Department of National Defence	1,519.0	1,514.9	4.1
Department of Defence Production	20.4	17.6	2.8
	1,539.4	*1,532.5*	*6.9*
Receipts from (—) or disbursements for—			
Replacement of materiel account—sec. 11, National Defence Act (net)	—3.0	10.2	—13.2
Defence production revolving fund (net)	—5.0	—9.5	4.5
	—8.0	*0.7*	*—8.7*
Net cash outlay for defence	1,531.4	1,533.2	—1.8

Agriculture

Expenditures of the Department of Agriculture totalled $265 million for 1960–61 compared with $228 million for 1959–60.

TABLE 10

(in millions of dollars)

Agriculture	Fiscal year ended March 31		Increase or decrease (—)
	1961 (preliminary)	1960	
Agricultural stabilization board—net operating loss	53.4	57.7	—4.3
Assistance re storage costs of grain	48.2	42.3	5.9
Board of Grain Commissioners (Canada Grain Act)	6.3	6.1	0.2
Prairie farm emergency fund—deficit	9.2	12.5	—3.3
Production and marketing branch—			
Contributions to Alberta, Saskatchewan and Manitoba—unharvested crops	1.4	4.7	—3.3
Freight assistance on western feed grains	19.2	23.8	—4.6
Health of animals division	13.4	10.9	2.5
Payments to western grain producers	40.5	....	40.5
Premium on hog carcasses including administrative costs	6.6	8.2	—1.6
Other	15.9	14.5	1.4
	97.0	*62.1*	*34.9*
Rehabilitation and reclamation projects	20.3	17.6	2.7
Research branch	26.2	25.6	0.6
Administration and general	4.4	3.6	0.8
	265.0	227.5	37.5

Payments of $41 million to western grain producers for which there was no comparable charge in 1959–60, and increases of $6 million for assistance re storage costs of grain and $3 million in outlays for rehabilitation and reclamation projects were offset partly by decreases of $3 million in contributions in respect of unharvested crops, $5 million in freight assistance on western feed grains, $3 million in the deficit of the prairie farm emergency fund and $4 million in the net operating loss of the agricultural stabilization board.

In 1960–61 expenditures in respect of the assistance re storage costs of grain and the Board of Grain Commissioners and payments in connection with the Prairie Grain Advance Payments Act were transferred to this department from the Department of Trade and Commerce under the authority of the Transfer of Duties Act. On August 1, 1960 Royal Assent was given to an act creating the Department of Forestry, comprising former divisions of the Department of Agriculture and the Department of Northern Affairs and National Resources relating to forestry. For purposes of comparison adjustments have been made for these items in the preceding table.

The 1960–61 net operating loss of the agricultural stabilization board was $53 million compared with $57 million in 1959–60.

Under the authority of Vote 576 of Appropriation Act No. 6, 1960, amounts totalling $41 million were paid to western grain producers as a higher return for wheat used for human consumption in Canada, and distributed on the basis of $1.00 per cultivated acre up to a maximum of 200 acres per farm in accordance with regulations of the Governor in Council. There was no expenditure for this purpose in 1959–60.

Advances of $9 million made by the Minister of Finance to the prairie farm emergency fund to cover the year's deficit were charged to budgetary expenditures. The comparable amount in 1959–60 was $13 million.

Atomic Energy

Expenditures of the Atomic Energy Control Board and payments to Atomic Energy of Canada Limited totalled $39 million compared with $30 million in 1959–60, an increase of $9 million.

Administration expenses of the Atomic Energy Control Board and grants for research and investigations with respect to atomic energy totalled $1 million, approximately the same as for the previous fiscal year.

During the year under review $38 million was paid to Atomic Energy of Canada Limited for its research program, $9 million more than in the previous year. Of the total, $23 million was for current operations and maintenance and $15 million for the construction and acquisition of buildings, land, works and equipment including $11 million for the construction of the nuclear power demonstration reactor.

TABLE 11
(in millions of dollars)

Atomic Energy	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Atomic Energy Control Board—			
Grants for research	0 6	0.6	....
Administration	0.1	0.1	....
	0.7	*0.7*	....
Atomic Energy of Canada Limited—			
Research program—			
Current operations and maintenance	23.1	18.6	4.5
Construction and acquisition of buildings, works, land and equipment	15.1	10.8	4.3
	38.2	*29.4*	*8.8*
	38.9	30.1	8.8

In addition, loans in the amount of $2 million were made to Atomic Energy of Canada Limited during the year. This brought the total of advances covered, or to be covered, by obligations or shares of the company to $61 million at March 31, 1961.

Canadian Broadcasting Corporation

Payments of $67 million were made by the government to the Canadian Broadcasting Corporation during 1960–61, an increase of $3 million over the total for 1959–60. However, it must be noted, that, of the $61 million paid to the corporation in 1959–60, $4 million was refunded to the government in 1960–61.

Grants for radio broadcasting and television services increased by $3 million over the corresponding total for 1959–60, while expenditures for the international shortwave broadcasting service remained at approximately $2 million.

TABLE 12
(in millions of dollars)

Canadian Broadcasting Corporation	Fiscal year ended March 31		Increase or decrease (—)
	1961 (preliminary)	1960	
Grants to the Canadian Broadcasting Corporation by the Government of Canada—			
Radio and television services—			
Net operating requirements	60.0	54.8	5.2
Capital requirements	5.3	7.2	—1.9
	65.3	*62.0*	*3.3*
International shortwave broadcasting service	1.9	2.0	—0.1
	67.2	64.0	3.2

In addition, during the fiscal year 1960–61 loans totalling $3 million were made to the Canadian Broadcasting Corporation for working capital requirements.

Citizenship and Immigration

Expenditures of the Department of Citizenship and Immigration were $61 million in 1960–61, an increase of $6 million over the total for 1959–60.

Outlays for the Indian affairs branch increased by $5 million during 1960–61, due principally to increases of $3 million in expenditures for Indian education and $1 million for Indian welfare. Expenditures of the immigration branch were approximately $1 million more than the comparable figure for the previous fiscal year.

TABLE 13
(in millions of dollars)

Citizenship and Immigration	Fiscal year ended March 31		Increase or decrease (—)
	1961 (preliminary)	1960	
Citizenship and citizenship registration	1.5	1.4	0.1
Immigration	12.2	11.7	0.5
Indian affairs	46.0	41.1	4.9
Administration and general	0.9	0.7	0.2
	60.6	54.9	5.7

External Affairs

Expenditures of the Department of External Affairs totalled $103 million in 1960–61, an increase of $6 million over the previous year.

The principal changes in expenditure were increases of $10 million in contributions to international organizations, $2 million in costs of representation abroad and $1 million in administration and general, offset partly by a decrease of $7 million in assistance to other countries.

Contributions to international organizations increased by $10 million during the year due mainly to outlays of $6 million for the purchase and transfer of wheat flour to assist in the establishment of strategic stock piles of food supplies in member states of NATO, $2 million representing Canada's contribution to the United Nations Fund for the Congo and Canada's assessment for the United Nations Congo Ad Hoc Account, 1960, and $1 million for Canada's assessment towards the financing of the United Nations emergency force. There were no expenditures for these items in 1959–60.

In 1960–61 expenditures of the International Economic and Technical Co-operation Branch were transferred to this department from the Department of Trade and Commerce under authority of the Transfer of Duties Act. The expenditures for 1960–61 and 1959–60 fiscal years are included in administration and general costs in the following table.

TABLE 14

(in millions of dollars)

External Affairs	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Assistance to other countries	6.7	13.8	−7.1
Canada's assessment for membership in international (including commonwealth) organizations	4.6	4.1	0.5
Contributions to international organizations	22.1	12.2	9.9
Grant to Colombo plan fund	50.0	50.0	....
Representation abroad	11.6	10.1	1.5
Administration and general	8.1	7.0	1.1
	103.1	97.2	5.9

Finance

Expenditures of the Department of Finance amounted to $1,460 million in 1960-61 an increase of $40 million over the corresponding total of $1,420 million in 1959–60.

Increases of $19 million in tax-sharing, subsidy and other payments to provinces, $14 million in public debt charges, $6 million in the government's share of medical-surgical insurance premiums for its own employees (there was no comparable amount in 1959–60), $3 million in administration and general costs, $2 million in grants to municipalities in lieu of taxes on federal property and $2 million in the administrative costs of the Office of the Comptroller of the Treasury were offset partly by the decrease of $7 million in payments to the Canadian Universities Foundation, for the purpose of making grants to institutions of higher learning, due to the Province of Quebec levying a special tax instead of accepting a grant through the Foundation.

TABLE 15

(in millions of dollars)

Finance	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Public debt charges	797.2	783.5	13.7
Tax-sharing, subsidy and other payments to provinces	537.8	518.9	18.9
Government's contribution to the public service superannuation account	41.4	40.0	1.4
Grants to municipalities in lieu of taxes on federal property	24.5	22.5	2.0
Grants to universities—			
Payments to the Canadian Universities Foundation	19.0	26.1	−7.1
Government's contribution as an employer to the unemployment insurance fund	1.0	0.8	0.2
Government's share of medical-surgical insurance premiums	6.0	....	6.0
Office of the Comptroller of the Treasury—administration expenses	19.9	18.2	1.7
Administration and general	12.8	10.2	2.6
	1,459.6	1,420.2	39.4

Public debt charges

In 1960–61 public debt charges were again the second largest item of budgetary expenditure. These charges, which consist of interest on public debt, the annual amortization of bond discounts and commissions, the cost of issuing new loans and other costs incurred in servicing the public debt, amounted to $797 million in 1960–61 or 13 percent of all budgetary expenditure compared with $783 million or 14 per cent in 1959–60.

TABLE 16

(in millions of dollars)

Interest and Other Public Debt Charges	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Interest on public debt—			
Unmatured debt including treasury bills—			
Payable in Canada	606.0	595.3	10.7
Payable in London	1.4	1.5	−0.1
Payable in New York	4.0	4.1	−0.1
	611.4	*600.9*	*10.5*
Other liabilities—			
Deposit and trust accounts	3.6	3.6	....
Annuity, insurance and pension accounts	141.3	131.1	10.2
	144.9	*134.7*	*10.2*
Total interest on public debt	756.3	735.6	20.7
Other public debt charges—			
Annual amortization of bond discounts and commissions	38.9	45.4	−6.5
Cost of issuing new loans	1.3	1.9	−0.6
Servicing of public debt	0.7	0.6	0.1
	40.9	*47.9*	*−7.0*
	797.2	783.5	13.7

Interest on public debt was $756 million in 1960–61, an increase of $21 million over the 1959–60 total of $735 million. Interest of $611 million on unmatured debt was $11 million higher due mainly to an increase in unmatured

debt; interest of $145 million on other liabilities was $10 million higher due mainly to increases of $5 million in respect of the Canadian forces superannuation account, $4 million in respect of the public service superannuation account and $1 million in respect of the government annuities account.

Other public debt charges amounted to $41 million compared with $48 million in 1959–60. The decrease of $7 million was due mainly to reductions of $6 million in the costs of annual amortization of bond discounts and commissions and $1 million in the cost of issuing new loans.

When considering the magnitude of these public debt charges and the burden they place upon the public treasury, it must be borne in mind that a substantial portion of the debt is attributable to, or is invested in, productive or earning assets. Therefore, in calculating the *net* burden of the government's annual interest charges, the income derived from loans, investments and other productive assets must be taken into account. For 1960–61 this income was $284 million as shown in the non-tax revenue section under the heading "Return on investments". This amount deducted from the gross total of $756 million for interest as shown in the above table leaves a net amount of $472 million compared with a net of $496 million in 1959–60. Measured as a percentage of the net debt the burden of the net annual interest charges was 3.79 per cent in 1960–61 compared with 4.10 per cent in 1959–60.

Tax-sharing, subsidy and other payments to provinces

Payments to the provinces during 1960–61 for statutory subsidies, payments under the Federal-Provincial Tax-Sharing Arrangements Act, the transitional and additional grants to Newfoundland, and the transfer of a portion of income tax receipts from certain public utility companies amounted to $538 million compared with $519 million in 1959–60.

Charges to budgetary expenditures in 1960–61 under the federal-provincial tax-sharing arrangements, including adjustments made on account of previous years, were $19 million more than in 1959–60. The increase was due to higher personal income tax collections for the 1960 taxation year and to adjustments necessitated in the final calculation of the tax-sharing arrangements payments for 1959–60 which were required to be made by December 31, 1960.

TABLE 17

(in millions of dollars)

Tax-Sharing, Subsidy and Other Payments to Provinces	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Payments under Federal-Provincial Tax-Sharing Arrangements Act, c. 29, Statutes of 1956, as amended	504.9	485.4	19.5
Statutory subsidies	20.7	20.7	....
Transitional grant to Newfoundland	0.3	0.7	−0.4
Additional grants to Newfoundland	7.7	7.3	0.4
Transfer of certain public utility tax receipts	4.2	4.8	−0.6
	537.8	518.9	18.9

Payments of $505 million to the provinces under the federal-provincial tax-sharing arrangements in 1960–61 were adjusted by deducting a total of $1 million from the tax-sharing entitlements of Newfoundland, Prince Edward Island, New Brunswick, Manitoba and Saskatchewan, making a net disbursement to the provinces of $504 million. These deductions represented recovery

of one-fifth of the overpayments made to those provinces under the 1952 tax-rental agreements on account of an over-estimation of their population as revealed by the 1956 census. By Memoranda of Agreement with the provinces concerned, the 1952 tax-rental agreements were amended to authorize the recovery of the overpayments in equal monthly deductions from the tax-sharing payments to those provinces over the five-year life of the new arrangements.

Statutory subsidies at $21 million in 1960–61 were unchanged from the previous year.

A summary of payments, by provinces, during 1960–61 is given in the following table:

TABLE 18

(in millions of dollars)

Tax-sharing, Subsidy and Other Payments to Provinces	Fiscal year ended March 31, 1961 (preliminary)				
	Statutory subsidies	Payments under tax-sharing arrangements	Transitional and additional grants	Transfer of certain public utility tax receipts	Total
Newfoundland	1.5	28.0	8.0	0.1	37.6
Nova Scotia	2.1	39.7	....	0.3	42.1
Prince Edward Island	0.6	7.3	....	(1)	7.9
New Brunswick	1.7	34.2	....	0.1	36.0
Quebec	3.3	70.4	....	1.2	74.9
Ontario	3.6	113.8	....	0.6	118.0
Manitoba	2.1	40.1	....	(1)	42.2
Saskatchewan	2.1	40.6	....	0.1	42.8
Alberta	2.4	57.1	....	1.5	61.0
British Columbia	1.3	73.7	....	0.3	75.3
	20.7	504.9	8.0	4.2	537.8

(1) Less than $50,000.

The amount of public utility tax receipts transferred to the Provinces in 1960–61 was $4 million, representing a decrease of $1 million from the 1959–60 total. The 1960–61 payment represents the transferable portion of the income tax received from corporations whose main business was the distribution to, or the generation for distribution to, the public of electrical energy, gas or steam for the taxation year 1958. The payment was authorized by Vote 115 of Appropriation Act No. 6, 1960.

Fisheries

Expenditures of the Department of Fisheries amounted to $19 million in 1960–61, $1 million less than in 1959–60.

TABLE 19

(in millions of dollars)

Fisheries	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Field services	9.9	10.1	−0.2
Canada's share of the costs of international commissions	0.9	0.8	0.1
Fisheries Research Board of Canada	4.8	4.8	
Administration and general	3.7	4.2	−0.5
	19.3	19.9	−0.6

Forestry

On August 1, 1960 Royal Assent was given to an act creating the Department of Forestry, comprising former divisions of the Department of Agriculture and the Department of Northern Affairs and National Resources relating to forestry. Expenditures were $10 million for 1960–61. The following table shows the total expenditures for 1960–61 with the corresponding expenditures of the Department of Agriculture and the Department of Northern Affairs and National Resources for 1959–60.

TABLE 20
(in millions of dollars)

Forestry	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Forest research	5.2	4.7	0.5
Contributions to the provinces for assistance in forest inventory, reforestation and forest fire protection	2.3	2.2	0.1
Forest access roads and trails	0.6	1.6	−1.0
Administration and general	2.0	1.4	0.6
	10.1	9.9	0.2

Justice

Expenditures of the Department of Justice amounted to $28 million for 1960–61, approximately the same as for the previous fiscal year.

TABLE 21
(in millions of dollars)

Justice	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Judges' salaries and travelling allowances	5.0	4.9	0.1
Administration and general	3.6	3.2	0.4
	8.6	*8.1*	*0.5*
Office of the Commissioner of Penitentiaries—			
Operation and maintenance of penitentiaries	15.3	13.2	2.1
Construction, improvements and equipment	3.1	5.9	−2.8
Administration	0.7	0.6	0.1
	19.1	*19.7*	*−0.6*
	27.7	27.8	−0.1

Labour

Expenditures of the Department of Labour amounted to $122 million during 1960–61, an increase of $19 million over the 1959–60 total of $103 million. Increases of $9 million in the government's contribution to the unemployment insurance fund, $6 million in administration and general expenditures of the Unemployment Insurance Commission and $2 million in payments to provinces for assistance to municipalities for winter work projects were the main factors contributing to this increase.

Payments to provinces and in respect of Indian bands by the Government of Canada during 1960–61 of amounts not exceeding one-half of the cost of labour incurred on winter work projects were $9 million compared with $7 million in 1959–60.

TABLE 22

(in millions of dollars)

Labour	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Payments to provinces authorized by Vocational Training Co-ordination Act	8.5	8.2	0.3
Municipal winter works program	8.9	6.6	2.3
Administration and general	6.9	6.5	0.4
	24.3	*21.3*	*3.0*
Unemployment Insurance Commission—			
Administration and general	42.2	35.9	6.3
Government's contribution to the fund	55.0	45.7	9.3
	97.2	*81.6*	*15.6*
	121.5	102.9	18.6

Unemployment Insurance Act administration and government's contribution

Expenditures in 1960–61 relating to the Act (excluding the government's payment as an employer which is included in the expenditures of the Department of Finance) amounted to $97 million compared with $82 million in 1959–60.

Unemployment insurance benefit payments are not charged to budgetary expenditures but are paid from the unemployment insurance fund which is financed by equal contributions from employees and employers, by interest earned on investments, and by the government's contribution of an amount equal to one-fifth of the combined employee-employer contributions. Further information in regard to the Unemployment Insurance Commission is given in section 4 under the liability category "Annuity, insurance and pension accounts".

The government's contribution to the fund for 1960–61 was $55 million and administrative costs were $42 million; the corresponding amounts for 1959–60 were $46 million and $36 million respectively. The increase in the government's contribution was due partly to a full year's effect of the increase in rates of employee-employer contributions effective September 27, 1959.

Mines and Technical Surveys

Expenditures of the Department of Mines and Technical Surveys totalled $59 million for 1960–61, an increase of $5 million over the total for 1959–60.

TABLE 23

(in millions of dollars)

Mines and Technical Surveys	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Emergency gold mining assistance	12.1	13.1	−1.0
Dominion Coal Board	19.1	17.6	1.5
Surveys and mapping	15.0	13.0	2.0
Mines branch	4.5	3.9	0.6
Geological survey of Canada	4.3	3.6	0.7
Administration and general	4.0	3.2	0.8
	59.0	54.4	4.6

Increases of $2 million in expenditures for surveys and mapping, $2 million in expenditures of the Dominion Coal Board, $1 million in expenses of the geological survey of Canada and $1 million in administrative and general costs were offset partly by a decrease of $1 million in payments under the Emergency Gold Mining Assistance Act.

National Health and Welfare

Expenditures for the Department of National Health and Welfare during 1960-61 amounted to $887 million, an increase of $69 million over the total for the previous fiscal year.

Outlays for the national health branch totalled $270 million in 1960–61, reflecting an increase of $43 million over the previous year's total due mainly to increases of $39 million in government contributions under the Hospital Insurance and Diagnostic Services Act, $2 million in general health grants to provinces and $2 million in expenditures for Indian and northern health services.

During 1960–61 expenditures of the welfare branch increased by $27 million over the comparable figure for 1959–60, due mainly to increases of $15 million in payments for family allowances and $11 million for unemployment assistance.

TABLE 24

(in millions of dollars)

National Health and Welfare	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
National health branch—			
Government's contributions under the Hospital Insurance and Diagnostic Services Act	189.4	150.6	38.8
General health grants to provinces	48.0	46.0	2.0
Indian and northern health services	23.0	21.5	1.5
Other	9.4	9.1	0.3
	269.8	*227.2*	*42.6*
Welfare branch—			
Family allowances	506.2	491.2	15.0
Unemployment assistance	51.6	40.2	11.4
Old age assistance	30.7	30.3	0.4
Disabled persons allowances	16.4	16.1	0.3
Blind persons allowances	4.2	4.2	....
Other	3.3	3.0	0.3
	612.4	*585.0*	*27.4*
Administration and general	5.0	6.2	−1.2
	887.2	818.4	68.8

Hospital insurance and diagnostic services

The Hospital Insurance and Diagnostic Services Act, Statutes of 1957, authorized contributions by Canada in respect of programs administered by the provinces, providing hospital insurance and laboratory and other services in aid of diagnosis. Payments for 1960–61 amounted to $189 million compared with $150 million in 1959–60. The increase of $39 million was due partly to the fact that during the previous fiscal year seven provinces had participated in the plan for a full fiscal year and two provinces for a partial year, whereas in the current fiscal year all provinces and territories participated under the agreements for a full year with the exception of the Yukon Territory and the Province of Quebec whose dates of entry under the plan were July 1, 1960 and January 1, 1961 respectively.

The effective date of each agreement is as follows:—July 1, 1958 for Newfoundland, Manitoba, Saskatchewan, Alberta and British Columbia; January 1, 1959 for Nova Scotia and Ontario; July 1, 1959 for New Brunswick; October 1, 1959 for Prince Edward Island; April 1, 1960 for the Northwest Territories; July 1, 1960 for the Yukon Territory; and January 1, 1961 for Quebec.

TABLE 25
(in millions of dollars)

Hospital Insurance and Diagnostic Services	Fiscal year ended March 31		Increase
	1961 (preliminary)	1960	
Newfoundland	5.1	4.7	0.4
Nova Scotia	9.6	8.2	1.4
Prince Edward Island	1.0	0.4	0.6
New Brunswick	7.9	4.6	3.3
Quebec	13.9	....	13.9
Ontario	84.5	71.9	12.6
Manitoba	13.1	11.3	1.8
Saskatchewan	14.5	13.4	1.1
Alberta	16.9	15.7	1.2
British Columbia	22.5	20.4	2.1
Northwest and Yukon Territories	0.4	....	0.4
	189.4	150.6	38.8

General health grants to provinces

General health grants to provinces for assistance in hospital construction, general health services and the control of diseases amounted to $48 million in 1960-61, an increase of $2 million over the 1959-60 total of $46 million.

TABLE 26
(in millions of dollars)

General Health Grants	Fiscal year ended March 31		Increase or decrease (—)
	1961 (preliminary)	1960	
Newfoundland	0.9	1.1	−0.2
Nova Scotia	2.9	1.5	1.4
Prince Edward Island	0.3	0.4	−0.1
New Brunswick	1.8	1.3	0.5
Quebec	13.9	15.1	−1.2
Ontario	15.9	15.1	0.8
Manitoba	2.6	2.3	0.3
Saskatchewan	2.4	2.2	0.2
Alberta	3.0	2.9	0.1
British Columbia	4.2	4.0	0.2
Northwest and Yukon Territories	0.1	0.1	....
	48.0	46.0	2.0

Family allowances

Family allowances are payable in respect of all children under sixteen years of age, resident in Canada, with minor exceptions such as in the case of children of immigrants who must reside in Canada a year before an allowance is payable. The monthly allowance is $6 if the child is under 10 years and $8

in the age group 10 to 15. Children of immigrants receive family assistance of $5 per month during their first year of residence in Canada from the Department of Citizenship and Immigration if during that period they are under sixteen years of age.

Family allowance payments in 1960-61 amounted to $506 million and represented 8 per cent of total expenditures. The increase of $15 million over the previous year reflected the increase in the number of children in the eligible age groups.

TABLE 27
(in millions of dollars)

Family Allowance Payments	Fiscal year ended March 31		Increase
	1961 (preliminary)	1960	
Newfoundland	16.0	15.6	0.4
Nova Scotia	21.2	20.9	0.3
Prince Edward Island	3.1	3.1	......
New Brunswick	18.9	18.6	0.3
Quebec	154.2	150.5	3.7
Ontario	162.6	156.7	5.9
Manitoba	24.4	23.7	0.7
Saskatchewan	25.8	25.3	0.5
Alberta	37.4	35.7	1.7
British Columbia	41.4	40.0	1.4
Northwest and Yukon Territories	1.2	1.1	0.1
	506.2	491.2	15.0

Old age assistance, disabled persons allowances, blind persons allowances and unemployment assistance

Under the Old Age Assistance Act, the federal government reimburses the provinces by paying 50 per cent of the lesser of $55 monthly or the amount of assistance given by the provinces in the form of monthly pensions to eligible persons in need who are in the age group 65 to 69. (Under the Old Age Security Act, all persons 70 years and over who satisfy the residence requirements of the Act may receive a pension of $55 per month from the federal government out of the old age security fund.) Similarly, the federal government reimburses the provinces under the Blind Persons Act for allowances of not more than $55 per month to blind persons in need 18 years of age or over by paying 75 per cent of the total payments, and under the Disabled Persons Act by paying 50 per cent of not more than $55 per month for allowances to disabled persons in need 18 years of age or over. In 1960-61 payments of $16 million in respect of disabled persons allowances, $4 million for blind persons allowances and $31 million for old age assistance were approximately the same as in 1959-60.

Under the Unemployment Assistance Act the federal government contributes up to 50 per cent of the cost of unemployment assistance paid by the provinces, subject to certain deductions as set out in the Act. All provinces have signed agreements with the federal government. There was an increase of $11 million in these contributions over those for the previous year.

TABLE 28
(in millions of dollars)

Federal Share of Old Age Assistance, Disabled Persons Allowances, Blind Persons Allowances and Unemployment Assistance	Fiscal year ended March 31, 1961 (preliminary)			
	Old age assistance	Disabled persons allowances	Blind persons allowances	Unemployment assistance
Newfoundland	1.7	0.4	0.2	2.8
Nova Scotia	1.6	0.8	0.4	1.6
Prince Edward Island	0.2	0.2	(1)	0.1
New Brunswick	1.8	0.6	0.4	1.4
Quebec	10.8	8.5	1.5	14.2
Ontario	6.7	3.9	0.8	13.3
Manitoba	1.6	0.4	0.2	3.0
Saskatchewan	1.8	0.4	0.2	2.2
Alberta	2.0	0.6	0.2	2.6
British Columbia	2.4	0.6	0.3	10.3
Northwest and Yukon Territories	0.1	(1)	(1)	0.1
	30.7	16.4	4.2	51.6

(1) Less than $50,000.

National Research Council

Expenditures of the National Research Council amounted to $35 million in 1960–61, $3 million higher than for 1959–60. Increases of $1 million in scholarships and grants in aid of research, $1 million in construction or acquisition of buildings, works, land and equipment, and $1 million in administration and general expenses were the main factors contributing to this increase.

TABLE 29
(in millions of dollars)

National Research Council	Fiscal year ended March 31		Increase or decrease (—)
	1961 (preliminary)	1960	
Construction or acquisition of buildings, works, land and equipment	5.3	4.3	1.0
Scholarships and grants in aid of research	10.4	9.4	1.0
Administration and general	18.8	17.8	1.0
	34.5	31.5	3.0

National Revenue

Expenditures of the Department of National Revenue totalled $73 million in 1960–61, $5 million more than in 1959–60.

Increases of $3 million in expenditures of the taxation division and $2 million in outlays of the customs and excise divisions were responsible for the increase.

TABLE 30

(in millions of dollars)

National Revenue	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Customs and excise divisions	39.0	36.9	2.1
Taxation division	34.1	31.6	2.5
Income tax appeal board	0.2	0.2	....
	73.3	68.7	4.6

Northern Affairs and National Resources

Expenditures of the Department of Northern Affairs and National Resources in the fiscal year 1960–61 were $74 million, approximately the same as the total for 1959–60.

Decreases of $1 million in expenditures of the northern administration branch and $2 million in outlays of the national parks branch were offset by the increase of $3 million in contributions to the provinces to assist in the development of roads leading to resources.

On August 1, 1960 Royal Assent was given to an act creating the Department of Forestry, comprising former divisions of the Department of Agriculture and the Department of Northern Affairs and National Resources relating to forestry. For purposes of comparison adjustments have been made for these items in the following table.

TABLE 31

(in millions of dollars)

Northern Affairs and National Resources	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Canadian government travel bureau	2.7	2.3	0.4
Contributions to the provinces to assist in the development of roads leading to resources	12.0	9.0	3.0
National parks branch	24.0	26.0	−2.0
Northern administration branch	29.3	30.7	−1.4
Water resources branch	2.0	2.2	−0.2
Administration and general	4.5	4.1	0.4
	74.5	74.3	0.2

Post Office

Gross expenditures of the Post Office Department for 1960–61 were $207 million, an increase of $15 million over the 1959–60 outlay of $192 million.

Remuneration of postmasters and staffs at revenue and semi-staff offices, commissions at sub-offices and certain other authorized disbursements are paid from revenue. These payments, included in the total of $207 million, amounted to $28 million in 1960–61, an increase of $2 million over the comparable total for 1959–60.

TABLE 32

(in millions of dollars)

Post Office	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Charged to budgetary expenditure—			
Operations—salaries and other expenses of staff post offices, district offices and railway mail services; and supplies and equipment and other items for revenue post offices	111.0	101.3	9.7
Transportation—movement of mail by land, air and water	62.2	59.8	2.4
Financial services	3.1	2.9	0.2
Administration and general	2.1	1.8	0.3
	178.4	*165.8*	*12.6*
Charged to revenue—			
Operations—salaries of postmasters and staffs at revenue and semi-staff offices, commissions paid at sub-offices and other disbursements	28.4	26.0	2.4
	206.8	191.8	15.0

Public Works

Expenditures of the Department of Public Works for 1960-61 amounted to $201 million compared with $218 million in 1959-60, a decrease of $17 million.

TABLE 33

(in millions of dollars)

Public Works	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Public buildings—construction and services—			
Acquisition, construction and improvements of public buildings—			
Ottawa	8.4	16.3	−7.9
Other centres in Canada	18.3	27.8	−9.5
Outside Canada	4.3	0.5	3.8
Maintenance and operation	43.4	41.5	1.9
Furniture and furnishings	2.6	2.5	0.1
Fire prevention	0.2	0.2	....
	77.2	*88.8*	*−11.6*
Harbours and rivers engineering services—			
Acquisition, construction and improvements of harbour and river works	29.9	31.6	−1.7
Dredging	6.1	4.8	1.3
General	0.9	0.8	0.1
	36.9	*37.2*	*−0.3*
Development engineering services—			
Trans-Canada highway division—			
Contributions to the provinces under the terms of the Trans-Canada Highway Act	48.7	53.2	−4.5
Contribution to the Province of New Brunswick—dam on Tantramar River	....	0.1	−0.1
Construction through national parks	9.2	12.0	−2.8
General	4.5	4.1	0.4
	62.4	*69.4*	*−7.0*
Housing	3.7	2.4	1.3
National Capital Commission	6.3	6.2	0.1
Administration and general	14.4	13.9	0.5
	200.9	217.9	−17.0

Decreases of $12 million in public buildings—construction and services, and $7 million in development engineering services were offset partly by the increase of $1 million in payments to Central Mortgage and Housing Corporation in respect of defence housing administration, housing research and the clearance, replanning, rehabilitation and modernization of blighted or substandard areas and reimbursement of losses sustained as a result of the operation of federal-provincial housing projects.

The decline of $12 million in outlays for public buildings—construction and services during 1960–61 was due mainly to a reduction of $8 million in expenditures for the acquisition, construction and improvement of public buildings in Ottawa and $9 million in other centres in Canada offset partly by an increase of $4 million for similar expenditures in localities outside of Canada.

The decrease of $7 million in the expenditures of the development engineering services was due mainly to decreases of $4 million in contributions to provinces under the terms of the Trans-Canada Highway Act and $3 million in costs of construction of the Trans-Canada highway through national parks.

Royal Canadian Mounted Police

Expenditures for the Royal Canadian Mounted Police amounted to $56 million for 1960–61, $4 million more than the total spent in 1959–60.

Payments as shown in the table represent gross expenditures; payments received from the provinces for police services amounting to $10 million were credited to revenue.

Increased expenditures of $1 million for the land, air and training divisions, $1 million for higher costs of headquarters administration and national police services and the increase of $1 million in the government's contribution to the Royal Canadian Mounted Police superannuation account, were the main factors contributing to the overall increase of $4 million in departmental expenditures.

Effective April 1, 1960, by an Act of Parliament, the Royal Canadian Mounted Police pension account was renamed the Royal Canadian Mounted Police superannuation account. Under the new Act the government's contribution is based on the total amount paid into the account by contributors during the preceding quarter while under the old Act the government's contribution was based on the total amount paid into the account by contributors during the previous fiscal year. Consequently, the government contributed to the fund in 1960-61 an amount based on payments by contributors during 1959–60 and an amount based on payments by contributors for the period April to December, 1960, inclusive.

TABLE 34

(in millions of dollars)

Royal Canadian Mounted Police	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Land, air and training divisions	41.4	40.1	1.3
Marine services	1.7	1.9	−0.2
Government's contributions to Royal Canadian Mounted Police superannuation account	2.9	1.5	1.4
Pensions and other benefits	3.2	2.9	0.3
Headquarters administration and national police services	6.8	6.0	0.8
	56.0	52.4	3.6

Trade and Commerce

Expenditures of the Department of Trade and Commerce totalled $22 million for 1960-61, an increase of $4 million over the previous year.

The more significant factors responsible for this increase were increases of $2 million in expenditures of the Dominion Bureau of Statistics, $1 million in outlays for the trade commissioner service and $1 million for administration and general.

In 1960-61 under the authority of the Transfer of Duties Act, expenditures in respect of assistance re storage costs of grain, Board of Grain Commissioners and Prairie Grain Advance Payments Act were transferred to the Department of Agriculture and expenditures of the international economic and technical co-operation branch were transferred to the Department of External Affairs. For purposes of comparison the 1959-60 amounts covering these items have been reported under the respective departments.

TABLE 35
(in millions of dollars)

Trade and Commerce	Fiscal year ended March 31		Increase or decrease (—)
	1961 (preliminary)	1960	
Dominion Bureau of Statistics	10.4	8.4	2.0
National Energy Board	0.4	0.2	0.2
Standards branch	2.5	2.4	0.1
Trade commissioner service	4.5	3.7	0.8
Administration and general	3.9	3.2	0.7
	21.7	17.9	3.8

Transport

Expenditures of the Department of Transport amounted to $338 million in 1960-61, an increase of $41 million over the total of $297 million in 1959-60.

The increase of $11 million in outlays for air services was attributable primarily to expanded services for aviation and consisted for the most part of increases of $6 million in outlays of the civil aviation branch and $3 million in costs of the meteorological branch.

Canal services expenditures increased by $1 million in 1960-61 while outlays for marine services declined by $10 million due to a decrease in expenditures for construction or acquisition of marine service steamers.

Expenditures for railway and steamship services increased by $15 million due to an increase of $13 million in payments under the Freight Rates Reduction Act and the increase of nearly $3 million in construction and acquisition of auto-ferries.

The payment in respect of the Canadian National Railway deficit for the calendar year 1960 was $67 million, $24 million more than for 1959 and the payment in respect of the Trans-Canada Air Lines deficit for the calendar year 1960 was $3 million. In 1959 the air lines had a small surplus. Non-active advances to the National Harbours Board were $1 million less than in the previous fiscal year.

TABLE 36

(in millions of dollars)

Transport	Fiscal year ended March 31		Increase or decrease (—)
	1961 (preliminary)	1960	
Air services—			
Civil aviation branch	83.5	77.4	6.1
Meteorological branch	16.6	13.3	3.3
Telecommunications branch	30.0	29.3	0.7
Administration	4.8	4.2	0.6
	134.9	*124.2*	*10.7*
Canal services	6.4	5.8	0.6
Marine services	42.8	53.3	—10.5
Railway and steamship services—			
Maritime Freight Rates Act—			
Difference between tariff and normal tolls	14.1	14.3	—0.2
Freight Rates Reduction Act	20.4	7.8	12.6
Construction and acquisition of auto-ferries	5.3	2.4	2.9
Other	1.0	1.3	—0.3
	40.8	*25.8*	*15.0*
Board of Transport Commissioners—			
Maintenance of trackage	7.0	7.0	....
Railway grade crossing fund	15.0	15.0	....
Administration and general	1.2	1.2	....
	23.2	*23.2*	....
Canadian Maritime Commission	6.9	6.7	0.2
Crown corporations—			
Deficits—			
Canadian National Railways	67.5	43.6	23.9
Trans-Canada Air Lines	2.6	....	2.6
Other	8.2	8.6	—0.4
Non-active advances—National Harbours Board	0.6	1.9	—1.3
	78.9	*54.1*	*24.8*
Administration and general	3.8	3.4	0.4
	337.7	296.5	41.2

Veterans Affairs

Expenditures of the Department of Veterans Affairs amounted to $292 million in 1960–61, an increase of $4 million over the 1959–60 total.

Increases of $2 million in outlays for treatment and welfare services, $2 million in war veterans allowances and other benefits and $1 million in pensions for disability or death were the main factors responsible for the increase.

TABLE 37

(in millions of dollars)

Veterans Affairs	Fiscal year ended March 31		Increase or decrease (—)
	1961 (preliminary)	1960	
Pensions for disability or death	150.7	149.7	1.0
Treatment and welfare services	58.7	57.1	1.6
War veterans allowances and other benefits	64.7	63.2	1.5
War service gratuities and re-establishment credits	2.9	2.9	....
Soldier Settlement and Veterans Land Acts—			
Administration and general	5.1	5.2	—0.1
Provision for reserve for conditional benefits, Veterans Land Act	3.5	3.8	—0.3
Departmental administration and miscellaneous payments	6.7	6.4	0.3
	292.3	288.3	4.0

All Other Departments

Expenditures of the departments not dealt with in preceding sections amounted to $33 million, an increase of $3 million over the total for 1959-60.

TABLE 38
(in millions of dollars)

All Other Departments	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Auditor General	0.9	0.9	....
Board of Broadcast Governors	0.3	0.2	0.1
Chief Electoral Officer	0.6	0.3	0.3
Civil Service Commission	4.2	3.6	0.6
Governor General and Lieutenant-Governors	0.4	0.4	....
Insurance	1.3	1.2	0.1
Legislation	8.5	7.7	0.8
National Film Board	4.9	4.6	0.3
National Gallery of Canada	1.0	0.7	0.3
Privy Council	1.9	1.4	0.5
Public Archives and National Library	0.8	0.7	0.1
Public Printing and Stationery	3.5	3.5	....
Secretary of State	4.9	4.7	0.2
	33.2	29.9	3.3

4. SUMMARY OF ASSETS AND LIABILITIES OF CANADA AS AT MARCH 31, 1961

A condensed statement of the assets and liabilities of the Government of Canada at March 31, 1961, the comparable balances at March 31, 1960, and the changes in each category during 1960–61, is shown in the following table.

TABLE 39

SUMMARY OF ASSETS AND LIABILITIES OF CANADA
(in millions of dollars)

—	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
LIABILITIES			
Current and demand liabilities	1,148.7	1,099.1	49.6
Deposit and trust accounts	236.3	242.7	−6.4
Annuity, insurance and pension accounts	3,953.8	3,565.4	388.4
Undisbursed balances of appropriations to special accounts	104.6	96.6	8.0
Deferred credits	79.3	84.0	−4.7
Suspense accounts	10.6	8.5	2.1
Unmatured debt	16,067.9	15,890.1	177.8
Total liabilities	21,601.2	20,986.4	614.8
ASSETS			
Current assets	771.2	862.2	−91.0
Advances to the exchange fund account	2,024.0	1,960.0	64.0
Sinking fund and other investments held for retirement of unmatured debt	16.7	85.3	−68.6
Loans to, and investments in, Crown corporations	3,629.5	3,446.7	182.8
Loans to national governments	1,378.4	1,414.5	−36.1
Other loans and investments	1,022.6	934.5	88.1
Securities held in trust	34.4	30.6	3.8
Deferred charges	130.8	151.0	−20.2
Unamortized portion of actuarial deficiencies—			
Canadian forces superannuation account	326.3	326.3	....
Public service superannuation account	276.7	139.0	137.7
Suspense accounts	(1)	(1)	....
Capital assets	(2)	(2)	....
Inactive loans and investments	94.8	93.5	1.3
Total assets	9,705.4	9,443.6	261.8
Less: reserve for losses on realization of assets	−546.4	−546.4	....
Net assets	9,159.0	8,897.2	261.8
Net debt represented by excess of liabilities over assets	12,442.2	12,089.2	(3)353.0

(1) Less than $50,000.

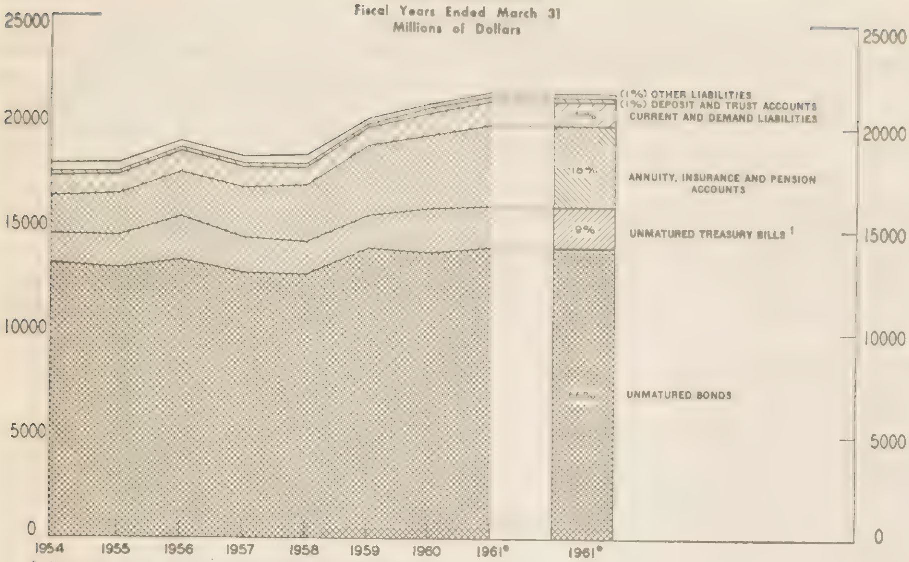
(2) Shown at nominal value of $1.

(3) Reflecting the budgetary deficit of $345.5 million plus an adjustment of $7.5 million in respect of prior years' transactions.

A. CHANGES IN PRINCIPAL LIABILITY CLASSIFICATIONS DURING 1960–61

The gross liabilities of the government increased by $615 million during the fiscal year. The main changes were increases of $388 million in annuity, insurance and pension account balances, $178 million in unmatured debt and $50 million in current and demand liabilities.

TOTAL LIABILITIES
Fiscal Years Ended March 31
Millions of Dollars



1. Also includes treasury notes for the fiscal years ended 1954-56 inclusive.
* Preliminary

Current and demand liabilities

This category consists of obligations of the government payable currently or on demand. The principal changes were increases of $16 million in accrued interest, $13 million in interest due and outstanding, $12 million in matured debt, $10 million in the revaluation adjustment of the Canadian dollar balance in the international monetary fund and $6 million in outstanding treasury cheques and a decrease of $9 million in accounts payable.

TABLE 40
(in millions of dollars)

Current and Demand Liabilities	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Outstanding treasury cheques	235.1	228.8	6.3
Accounts payable(1)	235.8	245.1	−9.3
Non-interest bearing notes payable to the international monetary fund and the international bank for reconstruction and development	383.7	381.8	1.9
Matured debt outstanding	32.3	20.1	12.2
Interest due and outstanding	70.4	57.7	12.7
Interest accrued	154.0	137.6	16.4
Post office—outstanding money orders	22.6	22.5	0.1
Outstanding letter of credit cheques	4.5	5.4	−0.9
International monetary fund—revaluation adjustment of Canadian dollar balance	10.1	....	10.1
Other current liabilities	0.2	0.1	0.1
	1,148.7	1,099.1	49.6

(1) Payments made in April in accordance with section 35 of the Financial Administration Act but which are applicable to the previous fiscal year.

Deposit and trust accounts

In these accounts are recorded sundry funds deposited with, or held in trust by, the Receiver General of Canada for various purposes.

The principal changes during the year were an increase of $7 million in Crown corporation deposits and a decrease of $5 million in contractors securities.

TABLE 41

(in millions of dollars)

Deposit and Trust Accounts	Balance at March 31 1961 (preliminary)	Balance at March 31 1960	Increase or decrease (−)
Army benevolent fund	6.5	6.9	−0.4
Canadian Pension Commission—administration trust fund	11.1	10.3	0.8
Contractors holdbacks	16.8	17.4	−0.6
Contractors securities—sundry departments—			
Cash	9.4	14.1	−4.7
Bonds	11.8	11.9	−0.1
Certified cheques	1.3	1.7	−0.4
	22.5	*27.7*	*−5.2*
Crown corporation deposits	19.4	12.6	6.8
Emergency gold mining assistance—holdbacks	1.4	2.3	−0.9
Guarantee deposits—			
Customs and excise	4.4	6.1	−1.7
Northern Affairs and National Resources	9.0	8.3	0.7
Indian trust funds	28.5	29.2	−0.7
Korean operations pool	16.1	16.1	....
National Harbours Board—special accounts	5.1	6.6	−1.5
Post office savings bank	28.8	29.4	−0.6
Soldier settlement and veterans land acts trust account—general	2.5	3.2	−0.7
United States of America	32.9	33.9	−1.0
War claims fund—world war 2	1.1	3.0	−1.9
Instalment purchase of bonds, public service	11.3	10.3	1.0
Other	18.9	19.4	−0.5
	236.3	242.7	−6.4

Annuity, insurance and pension accounts

In this category are recorded the amounts to the credit of the various annuity, insurance and pension accounts.

TABLE 42

(in millions of dollars)

Annuity, Insurance and Pension Accounts	Balance at March 31 1961 (preliminary)	Balance at March 31 1960	Increase or decrease (−)
Unemployment insurance fund	(1) 267.6	377.3	−109.7
Less investment in bonds and accrued interest	−247.6	−354.5	106.9
Uninvested funds on deposit with the government	20.0	22.8	−2.8
Government annuities	1,198.7	1,156.9	41.8
Public service superannuation account	1,467.7	1,229.6	238.1
Canadian forces superannuation account	1,155.4	1,053.0	102.4
Other	112.0	103.1	8.9
	3,953.8	3,565.4	388.4

(1) Includes loan of $67 million from the Minister of Finance.

Unemployment insurance fund

There was a decrease of $3 million in the uninvested funds of the Unemployment Insurance Commission on deposit with the government. During the year there was a decrease of $110 million in the unemployment insurance fund. The balance at March 31, 1961, including loans from the Minister of Finance amounting to $67 million was $267 million compared with $377 million at

March 31, 1960. Expenditures from the fund were $518 million consisting mainly of benefit payments of $510 million, losses of $7 million on sales of investments and a small amount of interest on loans from the Minister of Finance. Receipts were $408 million, consisting of contributions by employers and employees of $276 million, government contributions of $55 million, income of $10 million from investments, and loans from the Minister of Finance of $67 million. Benefit payments were $95 million higher than the $415 million paid out in 1959–60.

Government annuities account

The government annuities account increased by $42 million during the year reflecting the amount by which premium receipts of $48 million and interest of $44 million credited to the account by the government exceeded payments of $50 million to annuitants and beneficiaries.

Public service superannuation account

The increase of $238 million in the public service superannuation account was due mainly to a credit of $138 million (to bring the balance in the account into line with an actuarial evaluation as at December 31, 1957 as calculated by the Department of Insurance), the government's contribution of $41 million (equal to the estimated current and prior service payments of individuals in 1959–60), and interest of $51 million credited to the account. The remainder of the increase was due to the excess of employees' current and prior service contributions of $48 million and miscellaneous receipts of $2 million over benefit payments of $42 million.

Canadian forces superannuation account

The Canadian forces superannuation account increased by $102 million. The increase reflected the government's contribution of $41 million which is made at the rate of one and two-thirds times the current and prior service contributions, interest of $43 million credited to the account, and contributions of $32 million by permanent services personnel for current and prior years' service less benefit payments of $14 million from the account.

Old age security fund

Under the Old Age Security Act pensions of $55 per month are paid, without a means test, from the old age security fund to all eligible persons seventy years of age or over. Payments from the fund during 1960–61, were $592 million while credits to the fund from the 3 per cent tax on personal incomes (maximum tax $90), the 3 per cent tax on corporation profits and the 3 per cent sales tax totalled $603 million leaving a net credit of $11 million. In 1959–60 payments were $575 million, receipts were $547 million and the deficit in the fund covered by temporary loans from the Minister of Finance was $28 million.

In the Budget Speech of April 9, 1959, the Minister stated that, since provision was being made for the necessary revenues (by increases in the old age security tax rates) to bring the fund into balance over the next two or three years, he did not propose to treat the 1959–60 deficit as a budgetary charge in that year but to carry it forward to 1960–61.

In accordance therewith the $11 million excess of receipts over payments in 1960–61 was applied to reduce the temporary loans made in 1959–60 leaving a balance of $17 million in the temporary loan account as at March 31, 1961.

TABLE 43

(in millions of dollars)

Old Age Security Fund	Fiscal year ended March 31				
	1957	1958	1959	1960	1961 (preliminary)
Tax receipts—					
Sales tax	179.3	175.8	173.6	270.0	270.2
Personal income tax	125.0	135.0	146.4	185.6	229.4
Corporation income tax	67.3	60.7	55.3	91.3	103.5
Total tax receipts	371.6	371.5	375.3	546.9	603.1
Pension payments	−379.1	−473.9	−559.3	−574.9	−592.4
Excess of receipts over payments	−7.5	−102.4	−184.0	−28.0	10.7
Previous deficit brought forward	−50.0	−1.5	....	....	−28.0
Appropriation by Parliament—					
Charged to budgetary expenditures	56.0	103.9	184.0	....	....
Temporary loan from the Minister of Finance to cover deficit in fund	1.5	....	....	28.0	17.3

A distribution by provinces of pension payments from the old age security fund for the last two years is shown in the following table:

TABLE 44

(in millions of dollars)

Old Age Security Payments	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Newfoundland	11.4	11.1	0.3
Nova Scotia	27.6	27.0	0.6
Prince Edward Island	4.9	4.8	0.1
New Brunswick	20.4	19.9	0.5
Quebec	124.3	120.3	4.0
Ontario	214.6	208.6	6.0
Manitoba	36.1	35.1	1.0
Saskatchewan	37.5	36.3	1.2
Alberta	39.7	38.2	1.5
British Columbia	75.5	73.2	2.3
Northwest and Yukon Territories	0.4	0.4	....
	592.4	574.9	17.5

Undisbursed balances of appropriations to special accounts

This category records the undisbursed balances of appropriations to special accounts for which moneys have been appropriated by Parliament and from which disbursements may be made for authorized purposes in periods subsequent to that in which the appropriation was made. There was a net increase of $8 million in this category during the year bringing the balance at March 31, 1961 to $105 million.

In 1960–61 an amount of $50 million was credited to the Colombo plan fund and charged to budgetary expenditure and disbursements charged to the account were $45 million. The balance at March 31, 1961 was $68 million.

The increase of $1 million in the national capital fund represented the amount by which the $3 million credited to the fund and charged to budgetary expenditure exceeded disbursements from the fund.

The increase of $3 million in the railway grade crossing fund represented the amount by which the credit of $15 million to the fund and charged to budgetary expenditure exceeded disbursements from the fund.

TABLE 45

(in millions of dollars)

Undisbursed Balances of Appropriations to Special Accounts	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Colombo plan fund	67.5	63.0	4.5
National capital fund	2.8	2.3	0.5
Railway grade crossing fund	34.2	31.2	3.0
Other	0.1	0.1	....
	104.6	96.6	8.0

Deferred credits

Recorded in this category are the amounts of deferred interest on loans and advances to certain Crown corporations and national governments and other deferred payments due the government. These are contra accounts to corresponding items under "Cash in blocked currencies", "Loans to, and investments in, Crown corporations", "Loans to national governments", and "Other loans and investments".

TABLE 46

(in millions of dollars)

Deferred Credits	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Agreements of sale of Crown assets	10.0	13.6	−3.6
Crown Assets Disposal Corporation	5.1	5.6	−0.5
Deferred interest—			
The St. Lawrence Seaway Authority	19.4	19.4	....
United Kingdom Financial Agreement Act, 1946	44.2	44.2	....
Other	0.6	1.2	−0.6
	79.3	84.0	−4.7

Balances receivable under agreements of sale of Crown assets are set up as contra accounts to corresponding items under "Other loans and investments". The net decrease of $4 million during the year was due to payments received on outstanding agreements.

The government's equity in the agency account of Crown Assets Disposal Corporation is a contra account to a corresponding item under "Other loans and investments". The balance at March 31, 1961 was $5 million, approximately the same as at March 31, 1960.

There was no change during the year in deferred interest of $44 million on loans made under the United Kingdom Financial Agreement Act, 1946, and of $19 million on loans made to The St. Lawrence Seaway Authority. These are contra accounts to corresponding items under "Loans to national governments" and "Loans to, and investments in, Crown corporations" respectively.

Suspense accounts

These consist of balances where some uncertainty as to disposition exists.

TABLE 47
(in millions of dollars)

Suspense Accounts	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Replacement of materiel, sec. 11, National Defence Act	6.6	3.6	3.0
Unclaimed cheques	1.4	1.4	....
Other	2.6	3.5	−0.9
	10.6	8.5	2.1

The replacement of materiel account, established by section 11 of the National Defence Act, is credited with amounts realized from the sale of materiel that has not been declared surplus to requirements but has been authorized by the Governor in Council to be sold to other countries. The account is debited with disbursements representing amounts paid for the procurement of replacement materiel. During 1960–61 credits exceeded disbursements by $3 million.

The unclaimed cheques account is credited with the amount of treasury cheques (except those drawn on open accounts) which remain undelivered for certain specified periods subsequent to date of issue, pending claims therefor.

Unmatured debt

The unmatured debt of Canada at the close of the 1960–61 fiscal year amounted to $16,068 million, an increase of $178 million over the previous fiscal year total of $15,890 million. Debt payable in Canada increased by $250 million offset in part by decreases of debt payable in London of $20 million and in New York of $52 million. The decrease in debt payable in London and New York was due to the cancellation under authority of Order in Council P.C. 1961–460 dated March 30, 1961 of a portion of the loans that were being held for the retirement of unmatured debt.

TABLE 48
(in millions of dollars)

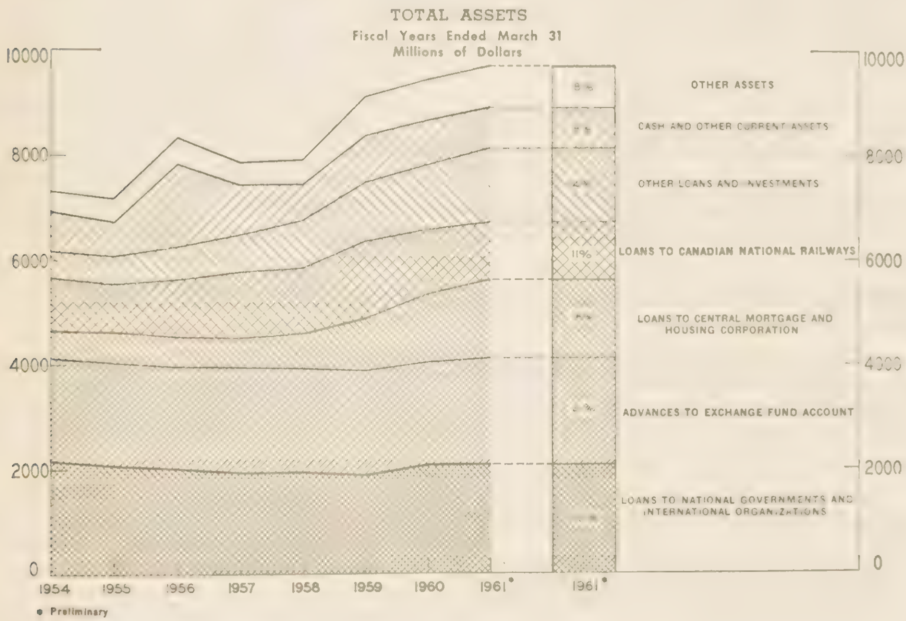
Unmatured Debt	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Payable in Canada—			
Canada savings bonds	3,555.5	3,136.5	419.0
Marketable bonds	10,447.2	10,426.8	20.4
	14,002.7	*13,563.3*	*439.4*
Treasury bills	1,935.0	2,125.0	−190.0
	15,937.7	15,688.3	249.4
Payable in London	32.0	51.8	−19.8
Payable in New York	98.2	150.0	−51.8
	16,067.9	15,890.1	177.8

The details of the various loan issues, redemptions and conversions resulting in the net increase are described more fully in section 6, "The Public Debt".

In the year under review, unmatured debt obligations payable in London have been stated in Canadian dollars converted at the rate of $2.80 for the pound sterling and that payable in New York at par for the U.S. dollar.

B. Changes in Principal Asset Classifications during 1960–61

The total assets increased during 1960–61 by $262 million. The principal changes were increases of $183 million in loans to, and investments in, Crown corporations, $158 million in the unamortized portion of the actuarial deficiency in the public service superannuation account, $88 million in other loans and investments, $64 million in advances to the exchange fund account and decreases of $91 million in current assets, $69 million in sinking fund and other investments, $36 million in loans to national governments and $20 million in deferred charges.



Current assets

The total of this category at March 31, 1961 was $771 million compared with $862 million at March 31, 1960. The main items of note were decreases of $71 million in cash in current and special deposits, $25 million in departmental working capital advances and revolving funds and an increase of $24 million in the securities investment account.

The decrease of $25 million in departmental working capital advances and revolving funds was due to decreases of $31 million in the agricultural commodities stabilization account and $5 million in the defence production revolving fund offset partly by increases of $3 million in miscellaneous departmental imprest and advance accounts and $8 million in other accounts.

TABLE 49

(in millions of dollars)

Current Assets	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Cash in current and special deposits	360.8	432.0	−71.2
Cash in hands of collectors and in transit	126.0	133.4	−7.4
Departmental working capital advances and revolving funds—			
Agricultural commodities stabilization account	90.2	120.7	−30.5
Defence production revolving fund	15.7	20.7	−5.0
Miscellaneous departmental imprest and advance accounts	25.0	22.4	2.6
Other	40.0	32.2	7.8
	170.9	*196.0*	*−25.1*
Securities investment account	101.5	77.9	23.6
Moneys received after March 31 but applicable to the current year	10.0	18.0	−8.0
International monetary fund—revaluation adjustment of Canadian dollar balance	....	3.1	−3.1
Post office—cash on hand and in transit	2.0	1.8	0.2
	771.2	862.2	−91.0

Advances to the exchange fund account

Advances during the year to the exchange fund account to finance the purchase of gold and foreign exchange amounted to $388 million and repayments were $324 million, increasing outstanding advances to $2,024 million at March 31, 1961.

Sinking fund and other investments held for retirement of unmatured debt

There was a decrease of $69 million in this category during the year bringing the balance to $17 million at March 31, 1961. The decrease was due to the cancellation under authority of Order in Council P.C. 1961–460 dated March 30, 1961, of a portion of the bonds held for the retirement of unmatured debt.

TABLE 50

(in millions of dollars)

Sinking Fund and Other Investments Held for Retirement of Unmatured Debt	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Sinking fund invested in—			
Newfoundland guaranteed stock, 1933/34-43/63, 3 per cent	12.7	12.7	....
United Kingdom conversion stock, 1963, 4¾ per cent	4.0	3.3	0.7
	16.7	*16.0*	*0.7*
Account N funds invested in[1]—			
Newfoundland guaranteed stock, 1933/34-43/63, 3 per cent	....	18.8	−18.8
Other investments[1]—			
Newfoundland guaranteed stock, 1933/34-43/63, 3 per cent	....	1.0	−1.0
New York loan, 1949-74, 2¾ per cent	....	38.5	−38.5
Accrued interest	....	0.1	−0.1
New York loan, 1950-75, 2¾ per cent	....	10.9	−10.9
Accrued interest	....	[2]	[2]
	....	*50.5*	*−50.5*
	16.7	85.3	−68.6

[1] Cancelled under authority of Order in Council P.C. 1961—460 dated March 30, 1961.

[2] Less than $50,000.

Loans to, and investments, in Crown corporations

These loans and investments increased by $183 million during 1960-61. The balance at March 31, 1961 was $3,630 million.

TABLE 51
(in millions of dollars)

Loans to, and Investments in, Crown Corporations	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Atomic Energy of Canada Limited	60.9	59.4	1.5
Bank of Canada	5.9	5.9	....
Canadian Arsenals Limited	7.5	7.5	....
Canadian Broadcasting Corporation	3.0	....	3.0
Canadian Commercial Corporation	7.0	6.0	1.0
Canadian National Railways	1,087.8	1,204.3	−116.5
Canadian National (West Indies) Steamships Limited	1.6	2.6	−1.0
Canadian Overseas Telecommunication Corporation	31.9	22.6	9.3
Central Mortgage and Housing Corporation	1,510.5	1,318.7	191.8
Eldorado Mining and Refining Limited	8.2	8.2	....
Export Credits Insurance Corporation	10.0	10.0	....
Farm Credit Corporation	155.7	115.7	40.0
National Capital Commission	26.0	17.8	8.2
National Harbours Board	172.8	161.4	11.4
Northern Canada Power Commission	39.7	34.6	5.1
Northern Ontario Pipe Line Crown Corporation	125.0	121.5	3.5
Polymer Corporation Limited	30.0	30.0	....
The St. Lawrence Seaway Authority—			
Loans	320.5	296.5	24.0
Deferred interest	19.4	19.4	....
Trans-Canada Air Lines	4.8	3.5	1.3
Other Crown Corporations	1.3	1.1	0.2
	3,629.5	3,446.7	182.8

Advances to Atomic Energy of Canada Limited, to be covered by obligations or shares of the company, were $61 million at March 31, 1961, an increase of $2 million during the year.

Loans during the year to Central Mortgage and Housing Corporation amounted to $235 million, of which $222 million was for direct loans by the corporation and $13 million in respect of loans for federal-provincial housing projects. Repayments totalled $43 million, of which $38 million was in respect of direct loans, $2 million in respect of loans for federal-provincial housing projects and $3 million in respect of loans for housing projects. The net increase of $192 million for the year brought the total loans to $1,511 million at March 31, 1961.

Loans to the Farm Credit Corporation amounted to $40 million and investment in the capital of the corporation amounted to $1 million during the year. Repayments by the corporation of $1 million, brought the outstanding advances to $156 million at March 31, 1961.

Advances to The St. Lawrence Seaway Authority during the year were $24 million bringing the total loans to $321 million. In addition, deferred interest on these loans was $19 million at the year-end, unchanged from the total at March 31, 1960. A contra item for this deferred interest is included in the liability category "Deferred credits".

In the fiscal year ended March 31, 1961, the government advanced to the Canadian National Railway Company $108 million for capital purposes and retirement of debt in the hands of the public. Of this amount $4 million was

advanced for the company's purchase fund which is operated under the terms of Canadian National Railway Company bonds, guaranteed by the Government of Canada, issued on May 15, 1959, December 15, 1959, January 1, 1960 and October 1, 1960 and $1 million was advanced to the company under the Refunding Act, 1955 for the refunding of various trust certificates. During the fiscal year ended March 31, 1961, repayment of current and prior years' advances totalled $225 million, of which $221 million was from the proceeds of the sale of Canadian National Railway Company bonds dated October 1, 1960.

In addition, to assist the company to finance further capital expenditure during the fiscal year, the government purchased $21 million of four per cent preferred stock of the Canadian National Railway Company. This stock is issued under the authority of the Canadian National Railways Capital Revision Act, 1952, in an amount equal to three per cent of the gross revenue of the company.

Further, in the year ended March 31, 1961, the government provided the company with temporary loans of $56 million in respect of its 1960 income deficit. This amount plus temporary loans of $14 million made on the same account in the previous fiscal year, less a repayment of $3 million representing advances not required by the company brought the total loans on account of the 1960 deficit to $67 million which was charged to budgetary expenditure in 1960–61. Also, in 1960–61, an accounting adjustment was made transferring to net debt $88 million in respect of the company's 1958 income deficit, under authority of Vote 565 of Appropriation Act No. 6, 1960.

In addition, temporary loans of $2 million were made in February 1961 to the company in respect of its 1961 income deficit.

In summary, the total amount made available to the company during the year was $184 million and repayments amounted to $300 million. The amount of advances to the company outstanding at March 31, 1961 was thus reduced by $116 million.

TABLE 52

(in millions of dollars)

Advances to, and Repayments by, the Canadian National Railways During the Fiscal Year 1960–61	Fiscal year ended March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Advances—			
For the refunding of debt	1.0	5.3	−4.3
For capital expenditures	102.6	149.2	−46.6
For purchase fund	4.0	7.5	−3.5
For interim financing of income deficits	55.5	41.0	14.5
	163.1	*203.0*	*−39.9*
Repayments—			
Advances for capital and refunding purposes	−225.1	−445.7	220.6
Advances for interim financing of income deficits	−75.0	−41.0	−34.0
	−300.1	*−486.7*	*186.6*
Excess of advances over repayments or repayments over advances (−)	−137.0	−283.7	146.7
Purchase of 4 per cent preferred stock (C.N.R. Capital Revision Act, 1952)	20.5	22.3	−1.8
Net increase or decrease (−) during the fiscal year in the government's advances to, and investments in, the Canadian National Railways	−116.5	−261.4	144.9

At March 31, 1960, temporary loans of $4 million were outstanding to the Trans-Canada Air Lines in respect of its 1960 income deficit. During 1960–61

further advances totalling $2 million were made for this purpose. The total amount of $6 million was repaid or credited during the year. However, the government made advances of $5 million on account of the air line's 1961 income deficit and this amount was outstanding at March 31, 1961.

Other changes in this category included increases of $9 million in advances to the Canadian Overseas Telecommunication Corporation, $11 million in loans to the National Harbours Board, $8 million in loans to the National Capital Commission and $5 million in advances to the Northern Canada Power Commission.

Loans to national governments

These loans totalled $1,378 million at March 31, 1961, a decrease of $36 million during the fiscal year.

TABLE 53
(in millions of dollars)

Loans to National Governments	Balance at March 31		Increase or decrease (−)
	1961 (preliminary)	1960	
Loans to United Kingdom—			
The United Kingdom Financial Agreement Act, 1946	1,047.3	1,064.1	−16.8
Deferred interest	44.2	44.2	...
	1,091.5	*1,108.3*	*−16.8*
Loans under the Export Credits Insurance Act, Part II—			
Belgium	36.9	39.2	−2.3
France	142.3	150.6	−8.3
Netherlands	73.4	78.0	−4.6
	252.6	*267.8*	*−15.2*
Special loans to Colombo Plan countries to finance the purchase of wheat and flour from Canada—			
Ceylon	2.0	2.0	...
India	29.5	33.0	−3.5
	31.5	*35.0*	*−3.5*
Miscellaneous loans and advances—			
France—interim credit—consolidated interest	1.4	1.5	−0.1
Netherlands—military relief and currency credits settlement	0.6	1.1	−0.5
Other	0.8	0.8	...
	2.8	*3.4*	*−0.6*
	1,378.4	1,414.5	−36.1

The United Kingdom government repaid $17 million on the $1,185 million loan made under the $1,250 million credit authorized by the United Kingdom Financial Agreement Act, 1946, reducing the principal outstanding at March 31, 1961 to $1,047 million.

Repayments of advances under Part II of the Export Credits Insurance Act to certain foreign countries to assist them in purchasing goods and services in Canada amounted to $15 million during 1960-61 reducing the balance at March 31, 1961 to $253 million.

Special loans to Colombo Plan countries to finance the purchase of wheat and flour from Canada were $32 million at March 31, 1961, $3 million less than the balance at March 31, 1960.

Miscellaneous loans and advances to foreign governments totalled $3 million at March 31, 1961, about $1 million less than the previous year-end balance.

Other loans and investments

There was an increase of $88 million in this category during the year bringing the balance at March 31, 1961 to $1,023 million.

TABLE 54
(in millions of dollars)

Other Loans and Investments	Balance at March 31 1961 (preliminary)	Balance at March 31 1960	Increase or decrease (−)
Subscriptions to capital of, working capital advances and loans to, international organizations—			
Canada's subscription to capital of—			
International monetary fund	543.7	528.7	15.0
International bank for reconstruction and development	73.7	70.9	2.8
International finance corporation	3.5	3.5	.....
International development association	8.5	.....	8.5
Working capital advances and loans to international organizations	1.8	2.1	−0.3
	631.2	*605.2*	*26.0*
Loans to provincial governments—			
Alberta	8.0	8.4	−0.4
British Columbia	15.5	16.3	−0.8
Manitoba	13.2	13.8	−0.6
New Brunswick	22.9	26.3	−3.4
Nova Scotia	.....	0.1	−0.1
Prince Edward Island	.....	0.1	−0.1
Saskatchewan	24.6	23.3	1.3
	84.2	*88.3*	*−4.1*
Overpayments to provinces arising out of 1952 tax-rental agreements—			
Manitoba	0.2	0.4	−0.2
New Brunswick	0.2	0.4	−0.2
Newfoundland	0.1	0.2	−0.1
Prince Edward Island	0.2	0.5	−0.3
Saskatchewan	0.3	0.6	−0.3
	1.0	*2.1*	*−1.1*
Veterans Land Act advances	199.6	188.9	10.7
Less reserve for conditional benefits—			
Veterans Land Act, 1942	−33.7	−37.3	3.6
	165.9	*151.6*	*14.3*
Miscellaneous—			
Assisted passage scheme (section 69, Immigration Act, R.S. 1952)	3.5	3.7	−0.2
Balances receivable under agreements of sale of Crown assets	12.1	16.0	−3.9
Construction of dock and rail facilities for Steep Rock Iron Mines Limited	1.8	1.9	−0.1
Crown Assets Disposal Corporation—Government equity in agency account	5.1	5.6	−0.5
Dominion Coal Company Limited	5.7	5.7	.....
Housing projects for Canadian forces	4.9	4.6	0.3
Land development of the Cornwall Navigation System	1.7	1.7	.....
Municipal Improvements Assistance Act, 1938	1.6	1.8	−0.2
New Westminster Harbour Commission	2.3	2.4	−0.1
Old age security fund—temporary loans	17.3	28.0	−10.7
Town of Oromocto, New Brunswick	4.2	3.9	0.3
Town of Oromocto Development Corportation	1.0	1.0	.....
Unemployment Insurance Commission	67.0	.....	67.0
Yukon Territory	2.1	2.3	−0.2
Northwest Territories	0.7	0.8	−0.1
City of Montreal—			
St. Remi Tunnel	1.2	1.2	.....
Atwater Tunnel	1.9	2.0	−0.1
Other	6.2	4.7	1.5
	140.3	*87.3*	*53.0*
	1,022.6	934.5	88.1

Canada's subscription to the capital of international organizations increased by $26 million during the year due mainly to revaluation adjustments of $15 million in the Canadian dollar balance in the international monetary fund and

a subscription of $9 million made by Canada to the international development association in accordance with section 4 of the International Development Association Act which was assented to on July 7, 1960.

Loans to provincial governments decreased by $4 million and overpayments to certain provinces arising out of the 1952 tax-rental agreements decreased by $1 million during the year.

Advances under the Veterans Land Act increased by $11 million. The reserve for conditional benefits under the Act decreased by $3 million and consequently the total increase in this account was $14 million.

Miscellaneous loans and advances increased by $53 million during the year due mainly to loans of $67 million to the Unemployment Insurance Commission which were outstanding at March 31, 1961 (there were no loans outstanding at March 31, 1960) offset partly by a decrease of $11 million in loans to the old age security fund.

Securities held in trust

This category records the security holdings of various deposit and trust, and annuity, insurance and pension accounts. Bonds and certified cheques held in connection with contractors' securities included in the deposit and trust category are also recorded under this heading. The balance at March 31, 1961 was $34 million, $4 million higher than the previous year-end balance.

Deferred charges

In this category are recorded the residual balances of discounts, commissions, redemption bonuses and conversion premiums on loan flotations that have not been charged to expenditures. There was a decrease of $20 million in this category during the year, bringing the balance at March 31, 1961 to $131 million.

TABLE 55
(in millions of dollars)

UNAMORTIZED BOND DISCOUNTS AND COMMISSIONS	Fiscal year ended March 31			
	1961 (preliminary)		1960	
Balance at beginning of fiscal year		151.0		147.4
New flotation costs to be amortized—				
4% Canada savings bonds, 1960, series 15	7.3			
5½% loan, issued Apr. 1, 1960, maturing Apr. 1, 1963	0.7			
5½% loan, issued Apr. 1, 1960, maturing Apr. 1, 1969	2.3			
4¼% loan, issued June 1, 1960, maturing Dec. 1, 1962	0.1			
3% loan, issued Dec. 15, 1960, maturing June 15, 1962	3.4			
4% loan, issued Dec. 15, 1960, maturing Dec. 15, 1963	3.4			
4% loan, issued Feb. 1, 1961, maturing May 1, 1964	3.6			
3½% loan, issued Mar. 15, 1961, maturing Dec. 15, 1962	1.2			
Treasury bills (discount on bills issued)	11.3		15.4	
4–4½% Canada savings bonds, 1959, series 14	0.8		15.7	
2¾% loan, issued July 1, 1959, maturing Apr. 1, 1960			3.0	
3% loan, issued July 1, 1959, maturing Dec. 15, 1960			3.6	
5½% loan, issued Oct. 1, 1959, maturing Oct. 1, 1960			1.5	
3% loan, issued Oct. 1, 1959, maturing May 1, 1961			6.7	
5½% loan, issued Oct. 1, 1959, maturing Oct. 1, 1962			6.6	
5½% loan, issued Feb. 15, 1960, maturing Oct. 1, 1962			1.0	
5½% loan, issued Feb. 15, 1960, maturing Apr. 1, 1963			2.5	
3½–4½% Canada savings bonds, 1958, series 13			0.3	
	34.1		*56.3*	
Less amortization applicable to fiscal year—				
Canada savings bonds and general loans	−38.9		−45.4	
Discount on treasury bills charged to interest on public debt	−15.4		− 7.3	
	−54.3		*−52.7*	
Increase or decrease (−) during year		[illegible]		[illegible]
Balance at end of fiscal year		130.8		151.0

Costs of new loans issued during 1960-61 and charged to the account were $34 million, of which $11 million was in respect of treasury bill discounts which will be charged to interest on public debt in 1961-62. Credits to the account amounted to $54 million of which $39 million was charged to annual amortization costs and $15 million, representing discount on treasury bills sold in 1959-60, was charged to interest on public debt in the 1960-61 budgetary expenditure accounts.

Unamortized portion of actuarial deficiencies

This category records the unamortized portions of the actuarial deficiencies in the public service and the Canadian forces superannuation accounts which have been set up as deferred charges to be written off to budgetary expenditure upon parliamentary approval.

During the year, $138 million was credited to the public service superannuation account in accordance with an actuarial evaluation as at December 31, 1957 and an equivalent amount was set up in this account as a contra item.

The deficiency in the Canadian forces superannuation account was based on the actuarial valuation made as at March 31, 1958.

Suspense accounts

The only item in this category is the cheque adjustment suspense account which reflects unadjusted balances resulting from the reconciliation of payments for redemption of paid cheques with the amount of those cheques as subsequently determined in adjustment of the outstanding cheque account.

Capital assets

Assets of the government such as land, buildings, works and equipment, etc., that are charged to budgetary expenditure at the time of acquisition or construction, are included in this category and are shown on the statement of assets and liabilities at a nominal value of $1.

Inactive loans and investments

Loans and investments which are not currently revenue-producing or realizable are recorded in this category. Included are the loan of $49 million to China under the Export Credits Insurance Act, loans of $24 million and $7 million made to Roumania and Greece in 1919-20 and 1920-21 and advances of $15 million in respect of the implementation of guarantees (Ming Sung Industrial Company Limited).

Reserve for losses on realization of assets

There was no change in this reserve during the year. The balance at March 31, 1961 remained at $546 million.

C. Increase in Net Debt

At March 31, 1961 the net debt of Canada amounted to $12,442 million compared with $12,089 million at March 31, 1960.

The budgetary deficit of $345 million for the fiscal year 1960-61 plus an accounting adjustment of $8 million in respect of prior years' transactions in connection with the Canadian National Railways 1958 deficit resulted in an increase of $353 million in the net debt of Canada during the fiscal year.

5. THE CASH POSITION

The government's cash position is affected not only by the budgetary transactions but also by changes in the government's outstanding unmatured debt and other non-budgetary transactions. In 1960-61, although there was a budgetary deficit of $345 million the government's bank balances decreased by only $71 million during the same period. This decrease was the net result of the budgetary deficit being offset by an increase of $223 million in outstanding unmatured debt (after taking into account transactions in the securities investment and sinking fund accounts) and the net receipts of $51 million from other non-budgetary transactions.

Non-budgetary receipts and disbursements relate to transactions which result in increases or decreases in the government's assets and liabilities and do not appear in what might be called the government's income account for the fiscal year nor do they enter into the calculation of the annual budgetary surplus or deficit. However, in considering the full scope of the government's financial operations and in measuring their effect on the government's cash position and their impact on the economy, non-budgetary as well as budgetary transactions must be taken into account.

The increases or decreases in the government's assets and liabilities have been described in detail in the section entitled "Statement of Assets and Liabilities of Canada". On the assets side the non-budgetary transactions consist, for the most part, of loans and advances to, and repayments by, Crown corporations and other government agencies and funds (including the old age security fund), national, provincial and municipal governments, international organizations, veterans and other borrowers. On the liabilities side they relate mainly to receipts and payments in connection with the many deposit and trust accounts, and annuity, insurance and pension funds held or administered by the government.

The following statement summarizes both the budgetary and non-budgetary transactions for 1960-61 and indicates how they affect the government's cash position. For purposes of comparison the corresponding figures for 1959-60 are also shown.

TABLE 56

(in millions of dollars)

Changes in Cash Position	Fiscal year ended March 31	
	1961 (preliminary)	1960
Budgetary transactions—		
Revenue	5,615.6	5,289.8
Expenditure	5,961.1	5,702.9
1. Budgetary deficit (−)	**−345.5**	**−413.1**
Non-budgetary transactions (excluding unmatured debt transactions)—		
Receipts and credits—		
Repayments of loans, investments and working capital advances (net)—		
Agricultural commodities stabilization account	30.5	−53.6
Canadian National Railways	116.5	261.4
Defence production revolving fund	5.0	9.5
New Brunswick (Beechwood Power Project)	3.4	3.2
Old age security fund (temporary loan)	10.7	−28.0
United Kingdom (1946 loan)	16.8	16.4
Other national governments (Export Credits Insurance Act)	15.2	17.9
Other	6.4	14.2
	204.5	*241.0*
Net government annuities account receipts—		
Premium receipts less payments to beneficiaries	−2.2	8.1
Government contributions to maintain reserve	....	0.2
Interest paid by government	44.0	42.8
	41.8	*51.1*
Net insurance and pension accounts receipts—		
Employee contributions less payments to beneficiaries	27.2	27.1
Government contributions	88.5	95.3
Actuarial deficiency in the public service superannuation account	137.7	....
Interest paid by government	96.0	88.3
	349.4	*210.7*
Net receipts in special defence account	3.0	−10.2
Net increase in current and demand liabilities	49.6	146.5
Net decrease in unamortized loan flotation costs	20.2	−3.6
Net decrease of cash in hands of collectors and in transit	7.4	33.6
Net receipts in sundry other accounts	14.6	31.2
	690.5	700.3
Disbursements and charges—		
Loans, investments, and working capital advances (net)—		
Canadian Broadcasting Corporation	3.0	....
Canadian Overseas Telecommunication Corporation	9.3	9.6
Central Mortgage and Housing Corporation	191.8	315.1
Exchange fund account	64.0	−35.0
Farm Credit Corporation	40.0	28.5
National Capital Commission	8.2	10.7
National Harbours Board	11.4	15.8
Northern Canada Power Commission	5.1	12.9
Northern Ontario Pipe Line Crown Corporation	3.5	8.0
The St. Lawrence Seaway Authority	24.0	33.1
International monetary fund (subscription to capital)	15.0	235.4
International development association	8.5	....
Unemployment Insurance Commission	67.0	....
Other	32.6	7.3
	483.4	*641.4*
Net disbursements on account of United States of America	1.0	8.3
Unamortized portion of actuarial deficiency in public service superannuation account	137.7	....
Other	16.9	13.0
	639.0	662.7
2. Net amount received from non-budgetary transactions (excluding unmatured debt transactions)	**51.5**	**37.6**
3. Overall cash requirement (−) to be financed by increase in debt or decrease in cash balances (1+2)	**−294.0**	**−375.5**
4. Net increase in unmatured debt outstanding in the hands of the public—		
Unmatured debt—		
Bonds	367.8	−214.0
Treasury bills	−190.0	530.0
Securities investment account	−23.6	20.1
Sinking fund and other investments	68.6	−2.1
	222.8	***334.0***
5. Net decrease (−) in Receiver General bank balances (3+4)	**−71.2**	**−41.5**

As the table shows, non-budgetary receipts and credits for 1960–61 (excluding unmatured debt transactions) totalled $690 million while non-budgetary disbursements and charges (also excluding unmatured debt transactions) amounted to $639 million, resulting in a net receipt of $51 million from non-budgetary transactions. As there was a budgetary deficit of $345 million, $294 million required financing by an increase in unmatured debt or a decrease in cash balances. In 1959–60 there was a net receipt of $38 million from non-budgetary transactions and for the same period there was a budgetary deficit of $413 million resulting in $375 million having to be financed by an increase in unmatured debt or a decrease in cash balances.

Non-budgetary receipts and credits, as already indicated, totalled $690 million in 1960–61. Repayments of loans, investments and working capital advances were $204 million and included $30 million in respect of the agricultural commodities stabilization account, $116 million from the Canadian National Railways, $11 million in respect of temporary loans to the old age security fund, $17 million from the United Kingdom government on account of the Financial Agreement Act, 1946 and $15 million from other national governments on loans made under Part II of the Export Credits Insurance Act. Net government annuities account receipts were $42 million and net insurance and pension accounts receipts were $349 million (including an accounting adjustment of $138 million with respect to the actuarial deficiency in the public service superannuation account). Net receipts and credits in various other accounts amounted to $95 million.

Non-budgetary disbursements and charges amounted to $639 million. Loans, investments and working capital advances were $483 million and included $9 million to the Canadian Overseas Telecommunication Corporation for investment in various cable projects, $192 million to the Central Mortgage and Housing Corporation for the purpose of making housing loans, $40 million to the Farm Credit Corporation for the purpose of making loans to farmers, $64 million to the exchange fund account, $8 million to the National Capital Commission for the purpose of acquiring land in the national capital area not required for immediate use, $11 million to the National Harbours Board for construction and capital expenditures, $24 million to The St. Lawrence Seaway Authority for costs in connection with the construction of the seaway, $24 million in respect of subscriptions to the international monetary fund and the international development association, and $67 million to the Unemployment Insurance Commission to finance the requirements of the unemployment insurance fund not otherwise financed by the sale of the fund's investments. Other non-budgetary disbursements and charges amounted to $156 million, including an accounting adjustment of $138 million in respect of the unamortized portion of the actuarial deficiency in the public service superannuation account.

In summary, as budgetary and non-budgetary transactions during 1960–61 required financing in the amount of $294 million, and unmatured debt outstanding in the hands of the public (after taking into account transactions in the securities investment and sinking fund accounts) increased by $223 million, cash balances on deposit with the banks decreased by $71 million.

6. THE PUBLIC DEBT

Gross and net debt

During the fiscal year ended March 31, 1961, the gross public debt increased by $615 million to $21,601 million. This increase was made up of increases of $178 million in unmatured debt and $437 million in other liabilities. During the year the government's recorded net assets increased by $262 million. The net debt increased by $353 million to $12,442 million, reflecting the budgetary deficit of $345 million plus an adjustment of $8 million in respect of prior years' transactions.

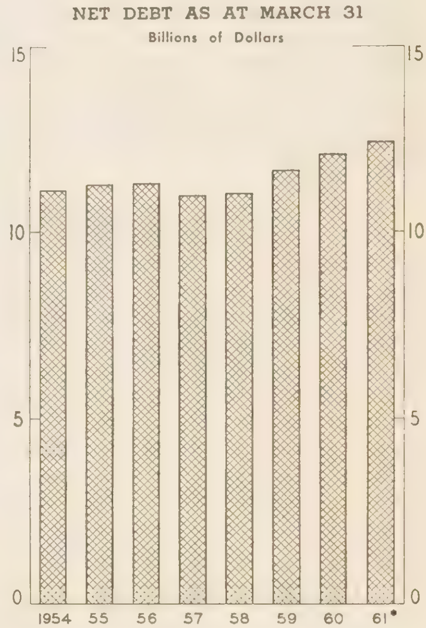


TABLE 57

STATEMENT OF PUBLIC DEBT, UNMATURED DEBT, RECORDED NET ASSETS AND NET DEBT OF CANADA
(in millions of dollars)

As at March 31	Gross Public Debt			Less recorded net assets	Net debt	Increase or decrease (−) in net debt during fiscal year
	Unmatured debt	Other liabilities	Total			
1957	14,368.4	3,967.3	18,335.7	7,328.0	11,007.7	−272.7
1958	14,245.1	4,173.4	18,418.5	7,372.2	11,046.3	38.6
1959	15,574.1	4,675.8	20,249.9	8,571.5	11,678.4	632.1
1960	15,890.1	5,096.3	20,986.4	8,897.2	12,089.2	410.8
1961 (preliminary)	16,067.9	5,533.3	21,601.2	9,159.0	12,442.2	353.0

Unmatured debt

The total unmatured debt of Canada at March 31, 1961 was $16,068 million. This was $178 million more than the total at the end of the previous fiscal year. During the fiscal year the government's holdings of its own securities in the sinking fund and in the securities investment account showed a net decrease of $45 million. The net increase in the amount of outstanding unmatured debt in the hands of the public was $223 million.

Summary of security issues and maturities or redemptions during the year

During the year ended March 31, 1961, the government issued securities payable in Canadian dollars in the principal amount of $2,531 million (excluding the refunding of treasury bills which mature weekly), redeemed or converted issues payable in Canada in the amount of $2,181 million and cancelled issues (under authority of Orders in Council P.C. 1961-116 dated January 30, 1961 and P.C. 1961-460 dated March 30, 1961) in the amount of $172 million of which $100 million was payable in Canada, $20 million in London and $52 million in New York.

The following is a summarized table of changes in unmatured debt for the last two years:

TABLE 58
(in millions of dollars)

Unmatured Debt	Fiscal year ended March 31			
	1961 (preliminary)		1960	
Balance at beginning of year		15,890		15,574
New issues—				
For cash—				
Canada savings bonds S.13	....		30	
Canada savings bonds S.14	64		1,408	
Canada savings bonds S.15	851		....	
Marketable bonds	200		100	
Treasury bills	....		343	
	1,115		*1,881*	
By renewals and conversions—				
Marketable bonds	1,416		948	
Treasury bills	....		187	
	1,416		*1,135*	
	2,531		3,016	
Less—				
Matured marketable bonds	−998		−415	
Conversions	−497		−1,135	
Canada savings bonds redeemed or matured	−496		−1,150	
Treasury bills (net)	−190		....	
	−2,181		*−2,700*	
Cancelled marketable bonds	−172		....	
	−2,353		−2,700	
Increase in unmatured debt		178		316
Balance at end of year		16,068		15,890

At March 31, 1961, the outstanding unmatured debt payable in U.S. dollars was $98 million, and the amount payable in sterling was $32 million.

Net sales of Canada savings bonds, 1960 series, as at March 31, 1961 amounted to $851 million and additional sales of Canada savings bonds, 1959

series, during the year were $64 million. Redemptions of Canada savings bonds series 5 to 14 (of which series 5 matured on November 1, 1960) were $496 million. The net increase during the year for all series was $119 million and the amount unmatured at March 31, 1961 was $3,556 million.

The amount of treasury bills outstanding decreased by $190 million during the fiscal year and the balance at March 31, 1961 was $1,935 million, consisting of $1,235 million in three-month bills, $650 million in six-month bills and $50 million in special one-year bills (due June 2, 1961). The March 31, 1960 balance of $2,125 million consisted of $1,375 million in three-month bills, $510 million in six-month bills, $200 million in special one-year bills and $40 million in special 253 day bills.

TABLE 59

Debt Matured or Redeemed During the Fiscal Year Ended March 31, 1961 (preliminary)

—	Interest rate	Where payable	Amount
	per cent		$
April 1, 1960, loans of 1958 and 1959	2¾	Canada	329,000,000
June 1, 1960, sixth victory loan	3	Canada	46,588,650
October 1, 1960, loan of 1959[1]	5½	Canada	134,998,000
December 15, 1960, loans of 1957 and 1959	3	Canada	609,000,000
February 1 and March 15, 1961, loans of 1958 and 1959[2]	3	Canada	225,000,000
December 15, 1960 and March 15, 1961, conversion loan of 1961[3]	3	Canada	250,000,000
Loan of October 1, 1959 (partial conversion)	5½	Canada	221,000
Loans of February 15, 1960 and April 1, 1960 (partial conversion)	5½	Canada	702,000
January 1, 1961, loan of 1933/34 (Newfoundland stock) [4]	3	London	19,822,389
March 1, 1961, loan of September 1, 1949[4]	2¾	New York	39,794,000
March 15, 1961, loan of September 15, 1950[4]	2¾	New York	12,031,000
Canada savings bonds, S5 to 14	various	Canada	495,559,600
Treasury bills—net decrease	various	Canada	190,000,000
			2,352,716,639

(1) $121,030,000 converted to loan of October 1, 1960—October 1,1975, 5½%. Balance of $13,968,000 charged to matured debt.

(2) $50,000,000 exchanged for loan of February 1, 1961—May 1, 1964, 4%; $75,000,000 exchanged for loan of March 15, 1961—December 15, 1962, 3½%; and $100,000,000 cancelled under authority of Order in Council P.C. 1961—116 dated January 30, 1961, leaving a balance of $300,000,000 in the loan.

(3) $110,000,000 exchanged for loan of December 15, 1960—December 15, 1963, 4%; $90,000,000 exchanged for loan of December 15, 1960—June 15, 1962, 3%; and $50,000,000 exchanged for loan of March 15, 1961—May 1, 1964, 4%, leaving a balance of $770,514,000 in the loan.

(4) Cancelled under authority of Order in Council P.C. 1961—460 dated March 30, 1961.

TABLE 60

NEW SECURITIES ISSUED DURING YEAR ENDED MARCH 31, 1961 (preliminary)

Description	Price to govern-ment	Yield at price to govern-ment	Total amount issued	Renewals or conversions included in amount issued	Amount issued for cash
			$	$	$
Issued to general public—					
Marketable bonds—					
(1) April 1, 1960—April 1, 1963, 5½%	99.40	5.72	249,000,000	249,000,000	
(2) April 1, [illegible]—April 1, [illegible], 5½%	97.00	5.94	80,000,000	80,000,000	
(3) June 1, 1960—December 1, 1962, 4¼%	99.91	4.29	140,000,000	140,000,000	....
(4) October 1, 1959—October 1, 1975, 5½%	....	....	121,251,000	121,251,000	....
December 15, 1960—June 15, 1962, 3%	98.60	3.97	300,000,000	300,000,000	
December 15, 1960—December 15, 1963, 4%	98.40	4.58	300,000,000	300,000,000	....
February 1, 1961—May 1, 1964, 4%	98.25	4.58	150,000,000	50,000,000	100,000,000
March 15, 1961—December 15, 1962, 3½%	99.20	3.98	175,000,000	75,000,000	100,000,000
(5) March 15, 1961—May 1, 1964, 4%	98.75	4.43	100,000,000	100,000,000	....
(6) February 15, 1960—April 1, 1976, 5½%	....	....	702,000	702,000	....
Canada savings bonds—					
November 1, 1959—November 1, 1968, 4-5%	98.75	....	63,700,000	....	63,700,000
November 1, 1960—November 1, 1970, 4-5% (net)	99.00	....	850,826,750	....	850,826,750
			2,530,479,750	1,415,953,000	1,114,526,750

(1) Of the public offering, $75,880,000 was sold at the above price. An additional amount of $44,120,000 was offered at competitive tender resulting in an average price to the government of 100.23. Bonds are exchangeable, on or before December 31, 1962, into an equal par value of 5½% non-callable bonds due April 1, 1976.

(2) Of the public offering, $74,875,000 was sold at the above price. An additional amount of $5,125,000 was offered at competitive tender resulting in an average price to the government of 98.25.

(3) Offered at competitive tender. Price and yield are the resulting average of successful tenders.

(4) In exchange for $121,030,000 5½% non-callable bonds due October 1, 1960 and $221,000 5½% non-callable bonds due October 1, 1962.

(5) Sold to Bank of Canada in exchange for an equal par value of $50,000,000 of treasury bills due June 2, 1961 and $50,000,000 of 3% bonds due December 1, 1961.

(6) In exchange for an equal par value of 5½% non-callable bonds due April 1, 1963.

Interest rates

The average interest rate on the government's unmatured debt at March 31, 1961 was 3.91 per cent compared with 3.98 per cent at the end of the previous fiscal year, reflecting lower treasury bill yields offset partly by a fractional increase in interest rates of marketable bonds.

The yield on the three-month treasury bills at tender on March 31, 1960 was 3.01 per cent. After declining to 1.68 per cent in September 1960, the yield had risen by December 1, 1960 to a high for the fiscal year of 3.95 per cent and was 3.21 per cent at tender on March 29, 1961.

The yield on six-month treasury bills was 3.23 per cent at tender on March 31, 1960. Six-month yields declined during the first half of the year to a level of 1.89 per cent in September and then rose to a level of 4.07 per cent on December 1, 1960. At tender on March 29, 1961 the rate was 3.37 per cent. The yield on one-year treasury bills issued on June 1, 1960 was 3.39 per cent.

The following table shows the high and low yields together with the yield on the last issue of three-month bills for the fiscal years ended March 31, 1957 to 1961 inclusive, and for six-month bills for the fiscal years 1959–60 and 1960–61:

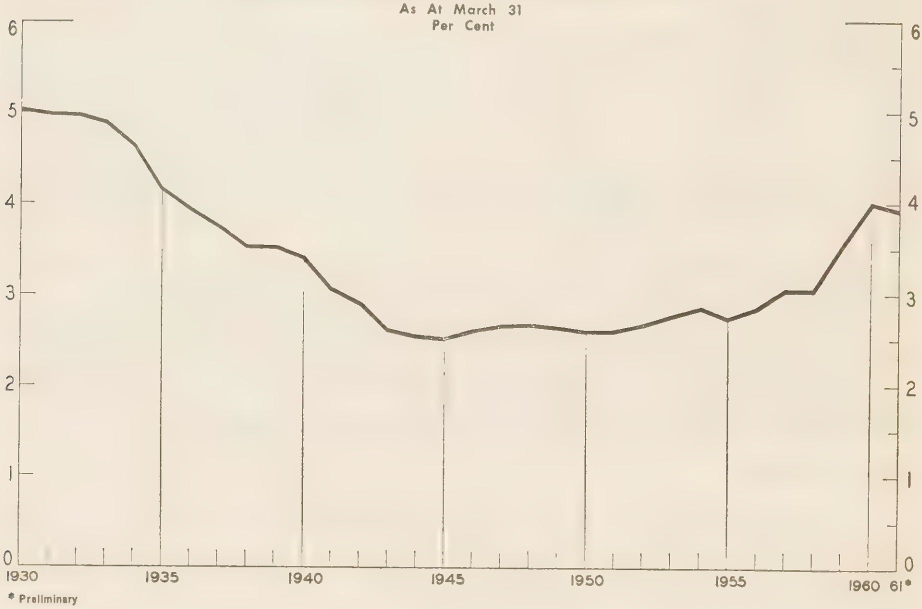
TABLE 61

TREASURY BILL YIELDS AT TENDER

Fiscal Year Ended March 31	High	Low	Last issue
	per cent	per cent	per cent
Three-month bills—			
1957	3.81	2.40	3.70
1958	4.08	2.27	2.27
1959	4.30	0.87	4.30
1960	6.16	3.01	3.01
1961	3.95	1.68	3.21
Six-month bills—			
1960	6.87	3.23	3.23
1961	4.07	1.99	3.37

AVERAGE INTEREST RATE ON UNMATURED DEBT

As At March 31
Per Cent



Indirect debt or contingent liabilities

In addition to the direct debt set out in the statement of assets and liabilities the government has assumed certain indirect or contingent obligations. These consist of securities of the Canadian National Railways, guaranteed as to principal and interest or as to interest only, and a number of miscellaneous guarantees, the chief of which are the guarantee of insured loans made by chartered banks and other approved lending institutions under the National Housing Act, 1954, deposits maintained by the chartered banks in the Bank of Canada, bank advances to the Canadian Wheat Board, advances under the Export Credits Insurance Act and bank loans under the Farm Improvement Loans Act.

The government's liability under its guarantee of insured loans under the National Housing Act, 1954 was $3,025 million at December 31, 1960 compared with $2,678 million at December 31, 1959.

TABLE 62

SUMMARY OF INDIRECT DEBT OR CONTINGENT LIABILITIES AS AT MARCH 31, 1961

—	Amount outstanding March 31, 1961 (preliminary)
	$
Bonds and debenture stock guaranteed by the government—	
Railway securities guaranteed as to principal and interest—	
Canadian Northern Ontario $3\frac{1}{2}\%$ due May 19, 1961	2,069,805
Grand Trunk Pacific 3% due January 1, 1962	26,465,130
Grand Trunk Pacific 4% due January 1, 1962	7,999,074
Canadian National $2\frac{3}{4}\%$ due February 1, 1963	250,000,000
Canadian National $5\frac{1}{2}\%$ due December 15, 1964(1)	199,000,000
Canadian National 3% due January 3, 1966	35,000,000
Canadian National $2\frac{3}{4}\%$ due January 2, 1967	50,000,000
Canadian National $4\frac{1}{2}\%$ due April 1, 1967(1)	72,750,000
Canadian National 5% due May 15, 1968(1)	56,400,000
Canadian National $2\frac{7}{8}\%$ due September 15, 1969	70,000,000
Canadian National $2\frac{7}{8}\%$ due January 16, 1971	40,000,000
Canadian National $3\frac{3}{4}\%$ due February 1, 1974	200,000,000
Canadian National $2\frac{3}{4}\%$ due June 15, 1975	6,000,000
Canadian National 5% due May 15, 1977(1)	85,950,000
Canadian National 4% due February 1, 1981	300,000,000
Canadian National $5\frac{3}{4}\%$ due January 1, 1985(1)	99,500,000
Canadian National 5% due October 1, 1987(1)	171,500,000
	1,672,634,009
Railway securities guaranteed as to interest only—	
Grand Trunk 5% debenture stock, perpetual	51,190
Grand Trunk 4% debenture stock, perpetual	5,054
	56,244
	1,672,690,253
Other outstanding guarantees and contingent liabilities—	
Deposits maintained by the chartered banks in the Bank of Canada	656,295,000
Loans maintained by approved lending institutions under National Housing Acts prior to 1954 Act	Indeterminate
Loans made by lenders under Part IV of the National Housing Act, 1954, for home extensions and improvements	7,526,556
Insured loans made by approved lenders under the National Housing Act, 1954	3,017,404,029
Guarantees to owners of returns from moderate rental housing projects	Indeterminate
Guarantees under Export Credits Insurance Act, Part I	104,164,661
Loans made by chartered banks under the Farm Improvement Loans Act	45,426,489
Loans made by chartered banks under the Veterans' Business and Professional Loans Act	209,136
Loans made by chartered banks and credit unions under the Fisheries Improvement Loans Act	146,747
Loans made by chartered banks under the Prairie Grain Producers' Interim Financing Act, 1956	92,374
Loans made by chartered banks under the Prairie Grain Loans Act	6,661
Loans made by chartered banks under the Small Business Loans Act	49,390
Loans made by chartered banks to Canadian Wheat Board	125,560,000
Loans made by chartered banks to Canadian Wheat Board pursuant to the Prairie Grain Provisional Payments Act	31,000
Loans made by chartered banks under the Prairie Grain Advance Payments Act	35,830,000
	3,992,742,043
TOTAL	5,665,432,296

(1) The original amounts issued were as follows: 1964 maturity $200,000,000; 1967 maturity $75,000,000; 1968 maturity $60,000,000; 1977 maturity $90,000,000; 1985 maturity $100,000,000; 1987 maturity $175,000,000; as at March 31, 1961 these amounts were reduced by $1,000,000, $2,250,000, $3,600,000, $4,050,000, $500,000 and $3,500,000 respectively through the operation of the Company's Purchase Fund.

7. SUPPLEMENTARY DETAILED TABLES

Revenues

Expenditures

Annual Changes in Loans and Investments

Unmatured Debt

STATEMENT OF REVENUES FOR LAST FIVE FISCAL YEARS

(in millions of dollars)

—	1956–57	1957–58	1958–59	1959–60	Preliminary 1960–61
	$	$	$	$	$
Tax Revenues—					
Income tax—					
Personal[1]	1,400.5	1,499.8	1,353.5	1,566.6	1,711.2
Corporation[1]	1,268.3	1,234.8	1,020.6	1,142.9	1,276.6
On dividends, interest, etc., going abroad	76.4	64.3	61.2	73.3	88.2
	2,745.2	*2,798.9*	*2,435.3*	*2,782.8*	*3,076.0*
Excise taxes—					
Sales tax[1] [2]	717.1	703.2	694.5	732.7	720.6
Other excise taxes—					
Automobiles	79.7	72.3	59.3	64.3	59.6
Beverages (soft drinks)	9.0	0.6	....	....	....
Candy and chewing gum	9.8	0.7	....	....	....
Cigarettes, cigars and tobacco	132.3	142.4	148.0	185.5	193.8
Electric power export	1.6	1.4	1.2	1.4	1.6
Jewellery, watches, ornaments, etc.	6.1	5.3	5.6	5.6	5.9
Matches and lighters	0.8	0.9	0.9	0.9	0.9
Television sets, radios, tubes and phonographs	19.0	16.9	17.8	17.8	16.0
Toilet preparations	6.1	6.3	6.8	7.6	8.4
Wines	2.6	2.7	3.1	3.0	3.2
Sundry commodities	2.3	1.4	1.2	1.2	1.0
Licences, interest and miscellaneous	0.5	0.6	0.5	0.6	1.3
Less refunds	−1.1	−0.7	−2.6	−0.4	−1.0
	268.7	*250.8*	*241.8*	*287.5*	*290.7*
Customs import duties	549.1	498.1	486.5	525.7	498.7
Excise duties—					
Spirits	70.3	83.7	96.5	102.4	108.5
Beer	83.1	88.2	83.1	90.7	91.0
Cigarettes, cigars and tobacco	121.1	131.7	141.2	146.2	150.3
Licences	(3)	(3)	(3)	(3)	(3)
Less refunds	−3.1	−3.5	−4.1	−4.1	−4.9
	271.4	*300.1*	*316.7*	*335.2*	*344.9*
Estate tax[4]	79.7	71.6	72.6	88.4	84.9
Miscellaneous tax revenue	16.7	0.1	(3)	(3)	(3)
Total tax revenues	4,647.9	4,622.8	4,247.4	4,752.3	5,015.8
Non-Tax Revenues—					
Post office—net postal revenue	145.8	152.9	157.5	167.6	173.6
Return on investments	206.6	169.4	221.2	239.7	284.0
Other	106.2	103.7	128.6	130.2	142.2
Total non-tax revenues	458.6	426.0	507.3	537.5	599.8
Total Revenues	5,106.5	5,048.8	4,754.7	5,289.8	5,615.6

(1) Excluding tax credited to the old age security fund—

	1956–57	1957–58	1958–59	1959–60	Preliminary 1960–61
Personal income tax	125.0	135.0	146.4	185.6	229.4
Corporation income tax	67.3	60.7	55.3	91.3	103.5
Sales tax	179.3	175.8	173.6	270.0	270.2

(2) Net after deduction of refunds and drawbacks as well as transfers to the old age security fund.

(3) Less than $50,000.

(4) Includes duties levied under the Succession Duty Act.

STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES FOR THE LAST FIVE FISCAL YEARS

(in millions of dollars)

—	1956–57	1957–58	1958–59	1959–60	Preliminary 1960–61
	$	$	$	$	$
AGRICULTURE—					
Administration and general	2.3	2.6	3.6	3.6	4.4
Agricultural commodities stabilization account—net operating loss	5.0	6.0	15.0	57.7	53.4
Assistance re storage costs of grain	31.8	33.3	38.4	42.3	48.2
Board of Grain Commissioners	5.9	6.3	6.1	6.1	6.3
Prairie farm emergency fund—deficit	....	5.9	17.0	12.5	9.2
Production and marketing	17.9	20.3	23.2	25.4	29.3
Contributions to Alberta, Saskatchewan and Manitoba—unharvested crops	....	....	....	4.7	1.4
Payments to western grain producers	....	....	41.3	....	40.5
Freight assistance on western feed grains	17.5	17.5	20.0	23.8	19.2
Premium on hog carcasses suitable for export to United Kingdom	5.7	5.5	6.9	8.2	6.6
Rehabilitation and reclamation projects	13.6	12.5	13.5	17.6	20.3
Research branch	20.4	22.0	23.6	25.6	26.2
	120.1	*131.9*	*208.6*	*227.5*	*265.0*
ATOMIC ENERGY	21.9	21.6	26.1	30.1	38.9
AUDITOR GENERAL'S OFFICE	0.7	0.8	0.8	0.9	0.9
BOARD OF BROADCAST GOVERNORS	....	....	0.1	0.2	0.3
CANADIAN BROADCASTING CORPORATION—					
Grants toward the anticipated operating deficit and capital expenditures of the radio broadcasting and television services	18.3	24.4	50.3	61.9	65.3
International service	1.7	1.8	1.9	2.0	1.9
Payment from the consolidated revenue fund of amounts equal to taxes collected under the Excise Tax Act in respect of radio and television sets and equipment	19.3	16.8	9.8	....	....
	39.3	*43.0*	*62.0*	*63.9*	*67.2*
OFFICE OF THE CHIEF ELECTORAL OFFICER	0.2	13.6	3.2	0.3	0.6
CITIZENSHIP AND IMMIGRATION—					
Administration and general	1.8	1.9	2.1	2.1	2.4
Immigration branch	18.6	22.1	14.4	11.7	12.2
Indian affairs branch	23.7	27.8	36.4	41.1	46.0
	44.1	*51.8*	*52.9*	*54.9*	*60.6*
CIVIL SERVICE COMMISSION	2.7	3.2	3.5	3.7	4.2
DEFENCE PRODUCTION—					
Administration and general	10.5	10.2	12.1	15.0	18.6
Production capacity and capital assistance to defence industry	10.0	4.8	1.8	2.6	1.8
	20.5	*15.0*	*13.9*	*17.6*	*20.4*
EXTERNAL AFFAIRS	14.5	15.7	17.0	16.9	19.4
Contributions to international economic and special aid programs	37.4	38.0	40.0	57.2	66.9
Other payments to international organizations and programs	8.5	6.7	18.8	23.1	16.8
	60.4	*60.4*	*75.8*	*97.2*	*103.1*
FINANCE—					
Administration and general	8.0	7.6	10.2	10.8	19.8
Office of the Comptroller of the Treasury	16.0	17.5	17.9	18.2	19.9
Grants to Canada Council	....	100.0	....	....	....
Grants to municipalities in lieu of taxes on federal property	9.5	17.5	21.9	22.5	24.5
Grants to universities	16.0	16.6	25.5	26.1	19.0

STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES FOR THE LAST FIVE FISCAL YEARS—*Continued*

(in millions of dollars)

—	1956–57	1957–58	1958–59	1959–60	Preliminary 1960–61
	$	$	$	$	$
FINANCE—*concluded*					
Government's contributions with respect to the superannuation account—					
General	31.6	33.8	37.7	40.0	41.4
Special	40.8	44.3	....	....	....
Payments to provinces—					
Subsidies	20.6	20.6	20.6	20.8	20.7
Tax-rental agreements, 1952 act	365.9	....	....	....	....
Tax-sharing arrangements, 1956 act	....	353.3	423.1	485.4	504.9
Transfer of certain public utility tax receipts	6.6	7.4	8.7	4.8	4.2
Transitional grant to Newfoundland	2.3	1.4	1.0	0.7	0.3
Additional grants to Newfoundland	....	....	13.6	7.3	7.7
Premium, discount and exchange	1.4	....	....	0.2	....
Provision for reserve for losses on realization of assets	50.0	....	....	....	....
Public debt charges—					
Interest on public debt	520.2	539.2	606.6	735.6	756.3
Cost of issuing new loans and annual amortization of bond discounts and commissions	13.4	27.7	40.8	47.3	40.2
Servicing of public debt	0.5	0.5	0.6	0.5	0.7
Reduction in actuarial deficiency in the superannuation account	50.0	....	....	....	....
	1,152.8	*1,187.4*	*1,228.2*	*1,420.2*	*1,459.6*
FISHERIES	13.8	16.4	17.5	19.9	19.3
FORESTRY	6.7	9.6	9.8	9.9	10.1
GOVERNOR GENERAL AND LIEUTENANT-GOVERNORS	0.4	0.4	0.4	0.4	0.4
INSURANCE	0.5	1.2	1.2	1.2	1.3
JUSTICE	7.0	7.2	7.6	8.1	8.6
Office of the Commissioner of Penitentiaries	12.0	12.7	16.7	19.7	19.1
	19.0	*19.9*	*24.3*	*27.8*	*27.7*
LABOUR	9.5	10.2	14.2	21.1	24.3
Government annuities—amount required to maintain reserve	....	1.2	0.2	0.2	....
Unemployment Insurance Act, 1940—					
Administration and general	29.0	32.5	35.3	35.9	42.2
Government's contribution	37.4	37.8	37.1	45.7	55.0
	75.9	*81.7*	*86.8*	*102.9*	*121.5*
LEGISLATION—					
House of Commons	5.4	5.0	5.6	5.6	6.3
Library of Parliament	0.3	0.3	0.3	0.3	0.3
Senate	1.5	1.5	1.7	1.8	1.9
	7.2	*6.8*	*7.6*	*7.7*	*8.5*
MINES AND TECHNICAL SURVEYS	17.5	18.7	22.7	23.7	27.8
Dominion Coal Board	9.7	8.8	11.3	17.6	19.1
Emergency gold mining assistance	8.7	8.6	9.8	13.1	12.1
	35.9	*36.1*	*43.8*	*54.4*	*59.0*
NATIONAL DEFENCE—					
Defence forces, Army, Naval and Air services	1,504.1	1,415.0	1,222.7	1,397.1	1,407.9
Defence research and development	69.3	78.7	74.4	39.2	44.2
Government's contributions with respect to Canadian forces superannuation account	46.3	49.7	49.5	51.8	40.6
Mutual aid to NATO countries	133.6	118.5	70.7	18.4	15.5
Pensions—payments under Defence Services Pension Act	5.6	5.8	6.0	6.3	6.8
Other	0.5	0.8	1.4	2.1	4.0
	1,759.4	*1,668.5*	*1,424.7*	*1,514.9*	*1,519.0*

STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES FOR THE LAST FIVE FISCAL YEARS—*Continued*

(in millions of dollars)

—	1956–57	1957–58	1958–59	1959–60	Preliminary 1960–61
	$	$	$	$	$
National Film Board	5.0	4.0	4.3	4.6	4.9
National Gallery of Canada	0.4	0.6	0.6	0.7	1.0
National Health and Welfare—					
Administration and general	5.2	5.5	5.6	6.2	5.0
National health branch—					
General health grants	36.3	34.6	45.9	46.0	48.0
Government's contributions under the Hospital Insurance and Diagnostic Services Act	.....	.....	54.7	150.6	189.4
Other	25.5	29.8	31.2	30.6	32.4
Welfare branch—					
Family allowances	397.5	437.9	474.8	491.2	506.2
Old age assistance, blind persons and disabled persons allowances	30.4	39.7	49.7	50.6	51.3
Old age security fund—deficit	56.0	103.9	184.0	.....	.....
Unemployment assistance	7.9	8.2	23.9	40.2	51.6
Other	2.9	3.1	3.1	3.0	3.3
	561.7	*662.7*	*872.9*	*818.4*	*887.2*
National Research Council	19.0	21.6	25.4	31.5	34.5
National Revenue	61.8	67.7	68.8	68.7	73.3
Northern Affairs and National Resources	32.5	41.9	58.0	74.3	74.5
Post Office	140.0	153.3	157.8	165.8	178.4
Privy Council including Prime Minister's Office	0.5	0.6	1.1	1.4	1.9
Public Archives and National Library	0.6	0.7	0.7	0.7	0.8
Public Printing and Stationery	3.2	3.3	3.5	3.5	3.5
Public Works	140.5	156.6	170.1	158.5	145.9
National Capital Commission	3.4	3.3	4.9	6.2	6.3
Trans-Canada highway contributions	24.8	49.4	51.1	53.2	48.7
	168.7	*209.3*	*226.1*	*217.9*	*200.9*
Royal Canadian Mounted Police	43.4	47.4	51.7	52.4	56.0
Secretary of State	3.5	4.0	4.4	4.7	4.9
Trade and Commerce	17.5	17.1	19.9	17.7	21.3
National Energy Board	.....	.....	.....	0.2	0.4
	17.5	*17.1*	*19.9*	*17.9*	*21.7*
Transport—					
Administration and general	3.3	3.7	4.0	4.6	5.0
Air services	70.5	90.3	115.4	124.1	134.9
Canadian Maritime Commission	5.0	5.2	5.9	6.7	6.9
Canal services	8.2	8.6	9.7	5.8	6.4
Marine services	26.9	32.8	51.8	53.3	42.8
Non-active assets—					
National Harbours Board	4.1	4.8	4.3	2.0	0.6
Railway and steamship services	8.2	5.7	1.8	3.7	6.3
Deficits—					
Canadian National Railways	.....	22.1	51.6	43.6	67.5
Canadian National (West Indies) Steamships Limited	.....	0.6	1.2	.....	.....
North Sydney—Port-aux-Basques ferry and terminals	5.4	6.0	5.8	5.8	5.4
Prince Edward Island car ferry and terminals	1.8	2.0	2.0	2.6	2.6
Yarmouth—Bar Harbour ferry	0.3	0.3	0.2	0.2	0.2
Freight Rates Reduction Act	.....	.....	.....	7.8	20.4

STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(in millions of dollars)

—	1956–57	1957–58	1958–59	1959–60	Preliminary 1960–61
	$	$	$	$	$
TRANSPORT—*concluded*					
Railway and steamship services—*concluded*					
Maintenance of trackage	7.0	7.0	7.0	7.0	7.0
Maritime Freight Rates Act	12.5	12.6	13.1	14.3	14.1
Railway grade crossing fund	5.0	5.0	15.0	15.0	15.0
Trans-Canada Air Lines—deficit	.....	.....	.....	.....	2.6
	158.2	*206.7*	*288.8*	*296.5*	*337.7*
VETERANS AFFAIRS—					
Administration and general	5.4	6.2	6.3	6.4	6.7
Hospital accommodation, additions, alterations and improvements	4.6	3.3	3.3	4.5	6.0
Pensions	130.3	145.6	150.7	149.7	150.7
Provision for reserve for conditional benefits	6.8	5.2	4.4	3.8	3.5
Soldier settlement and veterans land acts	5.4	5.6	5.4	5.2	5.1
Treatment and welfare services	50.8	56.4	56.1	52.6	52.7
Veterans allowances, treatment allowances and other benefits	45.8	53.1	60.4	63.2	64.7
War service gratuities and re-establishment credits	2.4	1.8	2.2	2.9	2.9
	251.5	*277.2*	*288.8*	*288.3*	*292.3*
TOTAL EXPENDITURES	4,849.0	5,087.4	5,364.0	5,702.9	5,961.1

ANNUAL CHANGES IN LOANS AND INVESTMENTS FOR THE LAST FIVE FISCAL YEARS

(in millions of dollars)

—	1956-57	1957-58	1958-59	1959-60	Preliminary 1960-61
	$	$	$	$	$
Loans to, and investments in, Crown corporations—					
Atomic Energy of Canada Limited....	9.1	3.2	2.7	0.6	1.5
Canadian Broadcasting Corporation...	−0.1	−0.3	−27.0	....	3.0
Canadian Commercial Corporation....	−2.0	....	....	2.0	1.0
Canadian National Railways..........	172.1	−10.7	199.5	−261.4	−116.5
Canadian National (West Indies) Steamships Limited................	−0.3	−0.2	−0.3	−0.2	−1.0
Canadian Overseas Telecommunication Corporation....................	4.3	0.3	0.3	9.6	9.3
Central Mortgage and Housing Corporation........................	−4.1	107.5	335.6	315.1	191.8
Farm Credit Corporation.............	9.3	14.3	22.0	28.5	40.0
National Capital Commission.........	....	2.1	5.0	10.7	8.2
National Harbours Board.............	7.2	11.1	20.2	15.8	11.4
Northern Canada Power Commission.	0.3	6.7	7.3	12.9	5.1
Northern Ontario Pipe Line Crown Corporation.........................	0.3	70.5	42.8	8.0	3.5
The St. Lawrence Seaway Authority..	56.0	(1)99.2	(1)106.1	(1)33.1	24.0
Trans-Canada Air Lines..............	....	....	2.5	1.0	1.3
Other................................	−0.1	0.1	....	−0.1	0.2
	252.0	*303.8*	*716.7*	*175.6*	*182.8*
Loans to national governments—					
United Kingdom—					
The War Appropriation (U.K. Financing) Act, 1942.................	−30.0	−30.0	−22.5	....	....
The United Kingdom Financial Agreement Act, 1946..............	−15.5	(2)44.2	−16.1	−16.4	−16.8
Export Credits Insurance Act.........	−21.9	−19.9	−17.9	−17.9	−15.2
Special loans to Colombo plan countries to finance the purchase of wheat and flour from Canada.................	....	16.2	18.3	0.5	−3.5
Other................................	−3.8	−1.1	−0.8	−0.6	−0.6
	−71.2	*9.4*	*−39.0*	*−34.4*	*−36.1*
Other loans and investments—					
Subscriptions to capital of, working capital advances and loans to, international organizations—					
Canada's subscription to capital of—					
International monetary fund.......	−8.8	5.0	−2.6	235.4	15.0
International finance corporation..	3.5	....	....	....	....
International bank for reconstruction and development...........	....	....	....	....	2.8
International development association..........................	....	....	....	....	8.5
Working capital advances and loans to international organizations......	0.8	−0.2	....	−0.1	−0.3
Loans to provincial governments......	−3.4	(3)1.0	(4)25.5	−6.0	−5.2
Balances receivable under agreements of sale of Crown assets..............	7.8	−4.4	−2.9	−3.1	−3.9
Old age security fund.................	−48.5	−1.5	....	28.0	−10.7
Unemployment Insurance Commission	....	....	....	....	67.0
Veterans land act advances...........	−3.8	−3.2	−3.0	0.6	14.3
Other................................	2.8	9.4	3.4	−3.4	0.6
	−49.6	*6.1*	*20.4*	*251.4*	*88.1*
Sinking fund and other investments held for retirement of unmatured debt....	....	0.9	−128.5	2.0	−68.6
Net total of changes in loans and investments.........................	131.2	320.2	569.6	394.6	166.2

(1) Includes deferred interest.

(2) Deferred interest.

(3) $4 million in overpayments to provinces arising out of 1952 tax-rental agreements offset in part by repayments of $3 million.

(4) Loan of $29.5 million to New Brunswick in respect of the Beechwood Power Project offset in part by repayments of $4 million.

UNMATURED DEBT INCLUDING TREASURY BILLS AS AT MARCH 31, 1961 AND THE ANNUAL INTEREST THEREON

—		Date of maturity	Rate per cent	Amount of loan	Annual interest charges
				$	$
Payable in Canada—					
Loan of 1958 and 1959	T.23	1961 May 1	3	300,000,000	9,000,000
Conversion loan of 1958	T.26	Dec. 1	3	770,514,000	23,115,420
Seventh victory loan	P. 3	1962 Feb. 1	3	53,473,150	1,604,195
Loan of 1960	T.41	June 15	3	300,000,000	9,000,000
Canada savings bonds 1951	S. 6	Aug. 1	3½	(1)29,976,400	1,049,174
Loan of 1959	T.35	Oct. 1	5½	349,741,000	19,235,755
Loan of 1960	T.40	Dec. 1	4¼	140,000,000	5,950,000
Loan of 1961	AT.2	1962 Dec. 15	3½	175,000,000	6,125,000
Loan of 1959	T.33	1963 Jan. 1	4	100,000,000	4,000,000
Loan of 1960	T.37	Apr. 1	5½	448,298,000	24,656,390
Canada savings bonds 1952	S. 7	Aug. 1	3¾	(1)32,310,950	1,211,660
Eighth victory loan	P. 5	Oct. 1	3	223,020,200	6,690,606
Loan of 1960	T.42	Dec. 15	4	300,000,000	12,000,000
Loan of 1961	AT.1	1964 May 1	4	250,000,000	10,000,000
Conversion loan of 1958	T.27	1965 Sept. 1	3¾	1,266,723,100	47,502,116
Canada savings bonds 1953	S. 8	Nov 1	3¾	(1)113,126,300	4,242,236
Ninth victory loan	P. 7	1966 Sept. 1	3	245,202,200	7,356,066
Canada savings bonds 1954	S. 9	Nov. 1	3¼	(1)66,930,450	2,175,239
Canada savings bonds 1955	S.10	1967 Nov. 1	3¼	(1)65,193,300	2,118,782
Refunding loan of 1950	P. 9	1968 June 15	2¾	350,000,000	9,625,000
Canada savings bonds 1959	S.14	Nov. 1	4¼	(1)1,236,537,000	52,552,822
Loan of 1960	T.39	1969 Apr. 1	5½	80,000,000	4,400,000
Canada savings bonds 1956	S.11	May 1	3½	(1)111,950,650	3,918,272
Loan of 1958	T.24	1970 May 1	3½	200,000,000	7,000,000
Canada savings bonds 1957	S.12	Nov. 1	4¾	(1)709,784,050	33,714,742
Canada savings bonds 1960	S.15	Nov. 1	4	(1)850,826,750	34,033,070
Conversion loan of 1958	T.28	1972 Sept. 1	4¼	1,366,733,800	58,086,187
Canada savings bonds 1958	S.13	1973 Nov. 1	4¼	(1)338,867,600	14,401,873
Loan of 1959	T.36	1975 Oct. 1	5½	121,291,000	6,671,005
Loan of 1960	T.38	1976 April 1	5½	702,000	38,610
Loan of 1954	T.11	June 1	3¼	300,000,000	9,750,000
Loan of 1953 and 1958	T. 5	1978 Jan. 15	3¾	250,000,000	9,375,000
Loan of 1954	T.13	1979 Oct. 1	3¼	400,000,000	13,000,000
Conversion loan of 1958	T.29	1983 Sept. 1	4½	2,151,548,950	96,819,703
Conversion loan of 1956	T.15	1998 Mar. 15	3¾	250,000,000	9,375,000
Loan of 1936	P. 1	Perpetual	3	55,000,000	1,650,000
Three-month treasury bills			(2)3.21	1,235,000,000	39,643,500
Six-month treasury bills			(2)3.37	650,000,000	21,905,000
One-year treasury bills			(3)3.39	50,000,000	1,695,000
				15,937,750,850	624,687,423
Payable in London—					
Loan of 1933/34		1963 July 1	3	(4)30,010,702	900,321
Loan of 1938		July 1	3¼	(4)1,978,362	64,297
				31,989,064	964,618
Payable in New York—					
Loan of 1949		1974 Sept. 1	2¾	(5)60,206,000	1,655,665
Loan of 1950		1975 Sept. 15	2¾	(5)37,969,000	1,044,148
				98,175,000	2,699,813
				16,067,914,914	628,351,854

NOTE.—Where various rates of interest are applicable during the term of a loan the interest rate in effect at March 31, 1961 has been used.

(1) Preliminary.

(2) Rate of discount at tender on March 29, 1961.

(3) Rate of discount.

(4) Conversion rate $2.80 = £1.

(5) Conversion rate $1 Can. = $1 U.S.